Washington State Auditor's Office
Troy Kelley
Integrity • Respect • Independence

Financial Statements Audit Report

Joint Animal Services

Thurston County

For the period January 1, 2011 through December 31, 2013

Published November 20, 2014

Report No. 1013001

Washington State Auditor
Troy Kelley

November 20, 2014

Board of Commissioners
Joint Animal Services
Lacey, Washington

Report on Financial Statements

Please find attached our report on the Joint Animal Services' financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

TABLE OF CONTENTS

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 4

Independent Auditor's Report on Financial Statements 6

Financial Section 8

About The State Auditor's Office 33

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*

Joint Animal Services
Thurston County
January 1, 2011 through December 31, 2013

Board of Commissioners
Joint Animal Services
Lacey, 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 Joint Animal Services, Thurston County, Washington, as of and for the years ended December 31, 2013, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 13, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

November 13, 2014

Independent Auditor’s Report on Financial Statements

Joint Animal Services
Thurston County
January 1, 2011 through December 31, 2013

Board of Commissioners
Joint Animal Services
Lacey, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Joint Animal Services, Thurston County, Washington, as of and for the years ended December 31, 2013, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Agency’s basic financial statements as listed on page 8.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Joint Animal Services, as of December 31, 2013, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

November 13, 2014

Financial Section

Joint Animal Services
Thurston County
January 1, 2011 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013, 2012 and 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013, 2012 and 2011
Statement of Revenues, Expenses and Changes in Fund Net Position – 2013, 2012 and 2011
Statements of Cash Flows – 2013, 2012 and 2011
Notes to Financial Statements – 2013, 2012 and 2011

Management's Discussion and Analysis

As management of the Joint Animal Services (Animal Services), we offer readers of the Animal Services' financial statements this narrative overview and analysis of the financial activities of the Animal Services for the fiscal years ended December 31, 2013, 2012, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the Animal Services' financial statements and the notes to the financial statements.

Financial Highlights

Key financial highlights for the fiscal year 2013, 2012, 2011 and 2010 are as follows:

- The Animal Services' overall financial position improved in the year 2013 as compared to the years 2012, 2011 and 2010.
- The assets of the Animal Services exceeded its liabilities by $3,840,244, $3,732,559, $3,708,987 and $3,433,527 at the end of the fiscal years 2013, 2012, 2011 and 2010, respectively.
- At the end of the fiscal years 2013, 2012, 2011 and 2010, the Animal Services reported an unrestricted net position of $1,968,604 (51 percent of total net position), $1,551,662 (42 percent of total net position), $1,596,402 (43 percent of total net position) and $1,616,106 (47 percent of total net position), respectively. Unrestricted net position can provide a cushion against significant downturn in revenues and to maintain sufficient working capital and cash flows to meet daily financial needs.
- Animal Services reported total revenues of $1,738,075, $1,623,812, $1,852,240 and $1,483,658 in the years 2013, 2012, 2011 and 2010, respectively. Total expenses were $1,630,390, $1,600,240, $1,576,780 and $1,485,222, in the years 2013, 2012, 2011 and 2010, respectively.
- The Animal Services' net position increased (decreased) by $107,685, $23,572, $275,460 and ($1,564) for the years 2013, 2012, 2011 and 2010, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Animal Services (A) *Fund Financial Statements*: (1) Statement of Net Position (2) Statement of Revenues, Expenses, and Changes in Fund Net Position and (3) Statement of Cash Flows, and (4) N*otes to the Financial Statements.*

Animal Services' financial statements have been prepared in conformity with generally accepted accounting principles (GAAP).

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Animal Services uses an enterprise fund to account for its activities. An enterprise fund is a proprietary fund type used to report the activities for which a fee is charged to external users and provides detailed information on fund net position, operating income, and cash flows on the full accrual accounting basis.

The statements of net position present information on all of the Animal Services' assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Animal Services is improving or deteriorating.

The statements of revenues, expenses and changes in fund net position present information showing how the government's net position changed during the most recent fiscal years. Revenues are recorded when earned and expenses are reported when liability is incurred, regardless of the time of related cash flows. Thus, all changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows.

Notes to the financial statements

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

Fund Financial Analysis

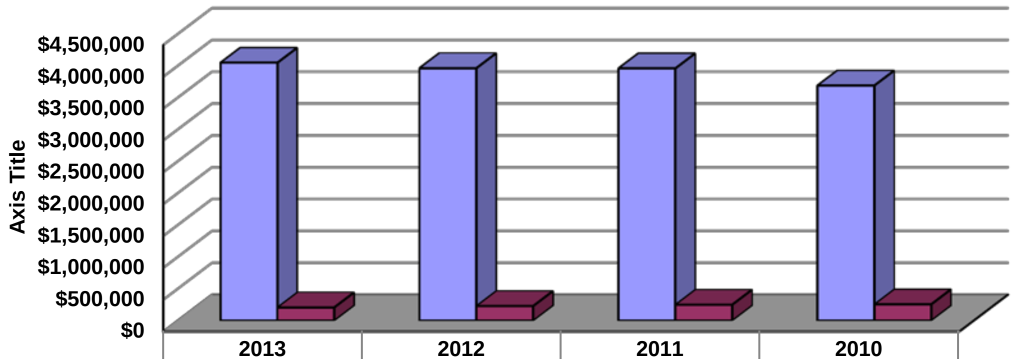
Statements of net position: The following table reflects the condensed statements of net position for the fiscal years 2013, 2012, 2011 and 2010.

Animal Service's Net Position

	2013	2012	2011	2010
Assets:				
Cash & cash equivalents	$ 2,359,315	$ 2,210,876	$ 2,214,183	$ 1,909,324
Current receivables	616	3,672	2,875	1,118
Capital assets, net of accumulated depreciation	1,686,173	1,746,286	1,740,154	1,776,877
Total assets	4,046,104	3,960,834	3,957,212	3,687,319
Liabilities:				
Current liabilities	74,786	78,322	77,971	65,974
Noncurrent liabilities	131,074	149,953	170,254	187,818
Total liabilities	205,860	228,275	248,225	253,792
Net Position:				
Net investment in capital assets	1,571,169	1,610,376	1,584,589	1,602,564
Restricted net position	300,471	570,521	527,996	214,857
Unrestricted net position	1,968,604	1,551,662	1,596,402	1,616,106
Total net position	$ 3,840,244	$ 3,732,559	$ 3,708,987	$ 3,433,527

For more detailed information see the *Statement of Net Position* in the fund financial statements.

Assets & Liabilities



	2013	2012	2011	2010
Assets	$4,046,104	$3,960,834	$3,957,212	$3,687,319
Liabilities	$205,860	$228,275	$248,225	$253,792

Current Year Impacts

The comparability of the statement of net position is impacted by the net results of activities, borrowing for capital, spending borrowed proceeds on new capital, principal payment on debt, and reduction of capital assets through depreciation.

- The *results of activities* increased (decreased) the Animal Service's net position by $107,685, $23,572, $275,460 and ($1,564) in the years 2013, 2012, 2011 and 2010 respectively.

- The principal payments on the existing loan during the years 2013, 2012, 2011 and 2010 were $18,661, $17,590, $16,850 and $16,126, respectively.

- Animal Services' investments in capital assets (net of accumulated depreciation) for 2013, 2012, 2011 and 2010 were $1,686,173, $1,746,286, $1,740,154 and $1,776,877, respectively. The investment in capital assets includes land, construction in progress, buildings and machinery and equipment.

- Net capital assets decreased in 2013 by $60,113 from the year 2012, which consists of a technical upgrade project, which is currently in construction in progress, for $29,523 and depreciation for $89,636. In year 2012, net capital assets increased by $6,132, from the year 2011. And in year 2011, net capital assets decreased by $36,723 from the year 2010. Accumulated depreciation of existing assets continues to grow, while the average acquisition of new capital assets remained below the annual deprecation.

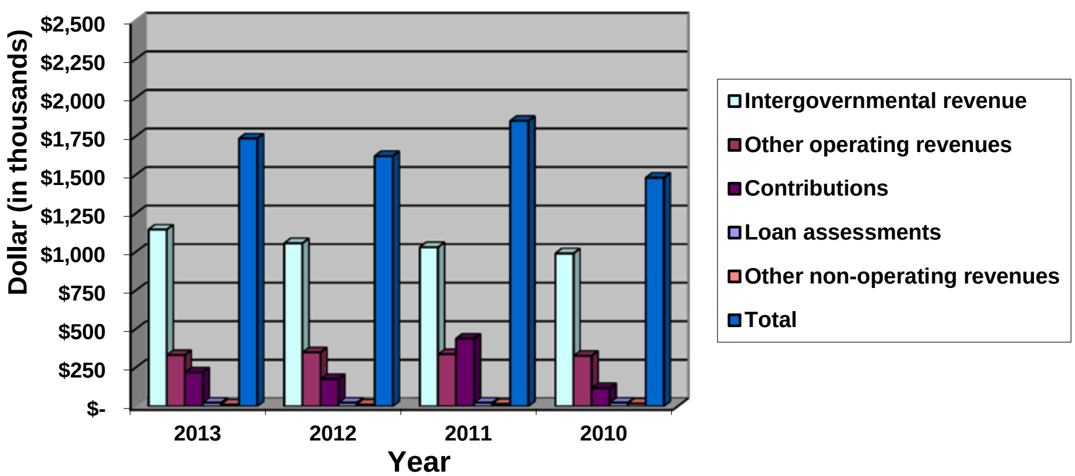
- Additional information on the Animal Services' capital assets can be found in Note 4 on the notes to the financial statements of this report.

Statement of revenues, expenses, and changes in fund net position*:* The following condensed table of changes in net position compares the revenues and expenses and changes in net position for the 2013, 2012, 2011 and 2010.

Animal Service's Changes in Net Position

	2013	2012	2011	2010
Revenues:				
Intergovernmental revenues/assessments	$ 1,147,700	$ 1,058,655	$ 1,033,065	$ 992,590
Other operating revenues	333,521	350,929	339,002	328,812
Contributions	220,932	177,700	440,406	119,643
Loan payments from participating jurisdictions	23,821	23,821	23,821	23,821
Other nonoperating revenues	12,101	12,707	15,946	18,792
Total revenues	1,738,075	1,623,812	1,852,240	1,483,658
Expenses:				
Operating expenses	1,535,711	1,506,655	1,482,477	1,392,696
Depreciation expenses	89,636	86,908	86,734	84,034
Interest expenses	5,043	6,677	7,569	8,492
Total expenses	1,630,390	1,600,240	1,576,780	1,485,222
Increase in net position	107,685	23,572	275,460	(1,564)
Net position, January 1	3,732,559	3,708,987	3,433,527	3,435,091
Net position, December 31	$ 3,840,244	$ 3,732,559	$ 3,708,987	$ 3,433,527

Revenue Source



Current Year Impacts

- Revenues

Changes in participant support can affect the operations of Animal Services. Approximately 66 percent ($1,147,700), 65 percent ($1,058,655), 56 percent ($1,033,065) and 67 percent ($992,590) of the total revenues came from the participating jurisdictions in 2013, 2012, 2011 and 2010, respectively. The remaining portion is from licenses and permits, charges for services, adoptions and miscellaneous revenues.

Private donations are another main revenue source for the Animal Services, which is one of the key factors for fluctuations in total revenues from year to year. Total contributions from private donors were $220,932 (13 percent of total revenue), $177,700 (11 percent of total revenue), $440,406 (24 percent of the total revenue) and $119,643 (8 percent of the total revenue) in the years 2013, 2012, 2011 and 2010, respectively.

Overall revenues increased by $114,263 during the year 2013 from the year 2012. About 38 percent ($43,232) of this increase was attributable to the increase in private contributions in 2013. During the year 2012, overall revenues decreased by $228,428 from the year 2011 due to the decline in private donations. During the year 2011, overall revenues increased by $368,582 from the year 2010. About 87 percent ($320,763) of the total increase was from increase in private donations.

Market impacts on investment can affect interest income from investing excess funds. Total interest earnings for the years 2013, 2012, 2011 and 2010 were $4,535, $5,303, $5,283 and $4,874, respectively. Total cash, deposits, and investments were $2,359,315 at year-end 2013, an increase of $148,439 compare to the balance of $2,210,876 at year-end 2012.

- Expenses

Changes in services, changes in personnel costs (cost of living increases, step increases, and market adjustments), and *inflation* impact the cost of services.

Total expenses for 2013 increased $30,150 (about 1.3 percent increase) from the year 2012. For the most part, the increases in expenses reasonably paralleled inflation and growth.

Overall expenses for 2012 increased $23,460 (about 1.5 percent increase) from the year 2011. Salary and benefits increased $33,038 mainly from cost of living increases and step increases, whereas other expenses were decreased $9,578 from the year 2011.

Debt Administration

Long-term debt. Animal Services' outstanding loan at the end of the years 2013, 2012, 2011 and 2010 were $112,773, $131,434, $149,024 and $165,874, respectively. Payments are funded by an interlocal agreement between the participating jurisdictions. Future payments for the outstanding loan of $112,773 at the end of the year 2013 are the sole responsibility of the City of Olympia. Additional information on the Animal Services' long-term debt can be found in Note 10 on the notes to the financial statements in this report.

Economic Factors and Next Year's Budgets

Economic factors can reflect a declining, stable, or growing economic environment and have an effect on the source and amount of revenues. Changing patterns in recurring intergovernmental and grant revenues may experience significant changes periodically while non-recurring intergovernmental and private donation revenues are less predictable and often distorting in their impact on year to year comparisons.

Changes in participant support can affect the operations of the Animal Services. The entity was created as a joint venture for the benefit of the joint venture participants. The participants have an ongoing financial interest and responsibility for the share of costs, risks, and rewards of service provide by the Animal Services

Market impacts on investment returns can affect interest income from investing excess funds.
Changes in services, changes in personnel, salary increases (cost of living, step increases, and market adjustments) and inflation impacts the cost of services.

All of these factors were considered in preparing the Animal Services budget for the 2014 fiscal year.

Financial Contact

Animal Services financial statements are designed to present users with a general overview of Animal Services finances and to demonstrate Animal Services accountability. If you have questions about this report or need additional financial information, contact the Joint Animal Services, c/o The City of Lacey - Finance Department, 420 College Street, Lacey, Washington 98503-1238.

JOINT ANIMAL SERVICES
STATEMENTS OF NET POSITION
For the Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,058,845	$ 1,640,355	$ 1,686,186
Restricted asset			
Cash and cash equivalents	300,470	570,521	527,997
Accrued Accounts Receivable		2,588	
Prepaids	616	1,084	824
Due from other governmental units	-	-	2,051
Total current assets	2,359,931	2,214,548	2,217,058
Noncurrent assets:			
Capital assets:			
Land	589,700	589,700	589,700
Buildings	1,861,072	1,861,072	1,861,072
Machinery and equipment	487,745	487,745	394,705
Construction in progress	29,523	-	-
Less accumulated depreciation	(1,281,867)	(1,192,231)	(1,105,323)
Total capital assets, net of accumulated depreciation	1,686,173	1,746,286	1,740,154
Total noncurrent assets	1,686,173	1,746,286	1,740,154
Total assets	4,046,104	3,960,834	3,957,212
LIABILITIES			
Current Liabilities:			
Accounts payable	18,963	24,701	$ 28,140
Due to other governmental units	1,243	3,450	589
Custodial accounts	1,112	1,105	1,136
Current portion of loan payable	19,744	18,399	17,590
Current portion of capital lease payable	2,231	2,246	2,064
Compensated absences due within one year	31,493	28,421	28,452
Total current liabilities	74,786	78,322	77,971
Noncurrent liabilities:			
Compensated absences	38,045	34,688	34,343
Loans payable	93,029	113,034	131,434
Capital leases payable	-	2,231	4,477
Total noncurrent liabilities	131,074	149,953	170,254
Total Liabilities	205,860	228,275	248,225
NET POSITION			
Net Investment in capital assets	1,571,169	1,610,376	1,584,589
Restricted:			
Nonexpendable	3,726	3,726	3,726
Vet care	252,223	514,615	477,393
Public education and training	19,330	19,663	17,562
Capital projects	25,192	32,517	29,315
Unrestricted	1,968,604	1,551,662	1,596,402
Total net position	$ 3,840,244	$ 3,732,559	$ 3,708,987

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

JOINT ANIMAL SERVICES
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
OPERATING REVENUES:			
Licenses and permits	$ 192,271	$ 205,261	188,212
Intergovernmental revenue/assessments	1,147,700	1,058,655	1,033,065
Sales of unclaimed property	87,136	93,678	101,303
Shelter fees	25,270	23,486	24,688
Charges for goods and services	26,275	26,458	22,216
Other miscellaneous revenues	2,569	2,046	2,583
Total operating revenue	1,481,221	1,409,584	1,372,067
OPERATING EXPENSES:			
Salaries and benefits	1,084,198	1,031,055	1,004,717
Professional services	221,880	231,481	224,781
Animal supplies	42,592	35,628	36,076
Bank charges	3,539	3,495	3,342
Communications	24,747	23,338	23,832
Insurance	22,714	26,394	27,965
Maintenance expense	46,547	47,966	32,450
Other operating expenses	16,909	16,436	17,715
Office supplies and equipment	13,590	24,001	43,703
Printing and binding	5,824	9,124	9,015
Public education	5,913	12,478	12,571
Travel, dues and subscriptions	1,031	415	2,462
Utilities	46,227	44,844	43,848
Depreciation expense	89,636	86,908	86,734
Total operating expenses	1,625,347	1,593,563	1,569,211
Operating income (loss)	(144,126)	(183,979)	(197,144)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	4,535	5,303	5,283
Gain (loss) on sale of capital assets	-	-	3,250
Loan payment received	23,821	23,821	23,821
Contributions	220,932	177,700	440,406
Miscellaneous nonoperating revenue	7,566	7,404	7,413
Interest expense	(5,043)	(6,677)	(7,569)
Total nonoperating revenues (expenses)	251,811	207,551	472,604
Changes in Net Position	107,685	23,572	275,460
NET POSITION - BEGINNING	3,732,559	3,708,987	3,433,527
NET POSITION - ENDING	$ 3,840,244	$ 3,732,559	$ 3,708,987

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

JOINT ANIMAL SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,491,843	$ 1,416,191	1,377,723
Cash payments for maintenance and operations	(459,315)	(476,180)	(465,308)
Cash payments to employees	(1,077,769)	(1,030,741)	(1,003,945)
Net cash provided (used) by operating activities	(45,241)	(90,730)	(91,530)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Cash contributions received	220,932	177,700	425,521
Net cash provided (used) by noncapital financing activities	220,932	177,700	425,521
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payments received for loan repayments	23,821	23,821	23,821
Principal paid on loans and capital leases	(20,907)	(19,654)	(18,748)
Interest payment	(5,179)	(6,706)	(7,612)
Acquisition and construction of capital assets	(29,522)	(93,041)	(35,126)
Proceeds from sale of capital assets	-	-	3,250
Net cash provided (used) by capital and related financing activities	(31,787)	(95,580)	(34,415)
CASH FLOW FROM INVESTING ACTIVITIES:			
(Purchase) sale of securities			
Interest received on Investments	4,535	5,303	5,283
Net cash provided (used) by investing activities	4,535	5,303	5,283
Net increase (decrease) in cash and cash equivalents	148,439	(3,307)	304,859
Cash and cash equivalents, January 1	2,210,876	2,214,183	1,909,324
Cash and cash equivalents, December 31	$ 2,359,315	$ 2,210,876	$ 2,214,183
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income (loss)	$ (144,126)	$ (183,979)	$ (197,144)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	89,636	86,908	86,734
(Increase) decrease in accounts receivable	2,588	(2,588)	-
(Increase) decrease in prepaids	468	(260)	294
(Increase) decrease in due from government units	-	2,051	(2,051)
Increase (decrease) in accounts payable	(5,738)	(3,439)	14,402
Increase (decrease) in accrued interest payable	136	29	43
Increase (decrease) in due to government units	(2,207)	2,861	(2,018)
Increase (decrease) in customer deposits	7	(31)	25
Increase (decrease) in compensated absences	6,429	314	772
Miscellaneous other non-operating receipts	7,566	7,404	7,413
Net cash provided by operating activities	$ (45,241)	$ (90,730)	$ (91,530)
Schedule of noncash capital and related financing activities:			
Contribution of capital assets by private donor	$ -	$ -	14,885

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

NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2013

NOTE 1. SUMMARY OF SIGINIFICANT ACCOUNTING POLICIES

The Joint Animal Services (Animal Services) financial statements conform to generally accepted accounting principles (GAAP) applicable to state and local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), when applicable, and the American Institute of Certified Public Accountants (AICPA) pronouncements that have been made applicable by GASB Statements or Interpretation. The significant accounting policies are described below.

A. Reporting entity

Animal Services operates as a joint venture providing services to the City of Lacey, the City of Olympia, the City of Tumwater, and Thurston County. S ervices include licensing, education, complaint and cruelty investigation, and enforcement. A shelter is also operated to hold owner released or lost animals, court involved animals, and animals destined for re-homing.

As required by GAAP the financial statements present the Joint Animal Services (Animal Services) – the primary government. There are no component units (either blended or discretely presented) included in these statements.

B. Basic financial statements

The Animal Services' basic financial statements include Statements of Net Position, Statements of Revenue, Expenses, and Changes in Fund Net Position, and Statements of Cash Flows. The financial transactions are accounted for by a set of self-balancing accounts that comprise of assets, liabilities, reserves, fund equity, revenues, and expenses.

C. Measurement focus and basis of accounting

The Animal Services' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. In applying GASB 63 and 65, resources provided and received before time requirements, but after all other eligibility requirements have been met, are reported as a deferred inflow of resources by the recipient (grantee) and an outflow of resources by the grantor.

D. Assets, liabilities, and net position

1. Cash and cash equivalents

Animal Services' cash and cash equivalents are considered to be cash on hand, demand deposits, and all highly liquid short-term investments (including restricted assets) with maturities of three months or less from the date of acquisition.

2. Receivables and payables

Accounts receivables and payables consist of amounts owed from/to private individuals or organizations for goods and services including amounts owed at the end of fiscal year. Receivables have been reported net of estimated uncollectable accounts.

3. Capital assets and depreciation – (Refer to Note 4).

4. Compensated absences

It is the Animal Services' policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay may accumulate up to 240 hours at December 31 and is payable upon resignation, retirement or death. Sick leave may accumulate up to 960 hours but does not vest until retirement. Accrued sick leave is considered immaterial and is not accrued. All vacation pay is accrued when incurred and reported in the financial statements. The liabilities for compensated absences are considered to be long-term liabilities and are included in Note 10.

5. Net position

The financial statements utilize a net position presentation. Net position is the difference between assets and liabilities. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt.

Restricted net position consists of assets which have third party (statutory, bond covenant, granting agency, or an individual donor, etc.) limitations on their use. Animal Services would typically use restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition. Restricted assets are further divided in to expendable and nonexpendable assets. The amount reported in nonexpendable net position represents a certain donation that the donor required it to be maintained intact and only use the interest earned on the principal.

Unrestricted net position represents unrestricted liquid assets. Animal Services management may have plans or tentative commitments to expend resources for certain purposes in future periods. Further legal action will be required to authorize the actual expenses or expenditures.

E. Revenues, expenditures, and expenses

Operating and nonoperating revenues and expenses

Operating revenues and expenses are those that result from providing goods and services in connection to the Animal Services' principal ongoing operations. The principal operating revenues of the Animal Services are charges to customers for sales and services and assessments to participating jurisdictions. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not related to capital and noncapital related financing or investing activities are also included. All revenues and expenses not meeting this definition are nonoperating revenues and expenses.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and total expenses did not exceed legal appropriations at the fund level.

A. Procedure for adopting the original budget

Animal Services' annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Thus there is no difference between GAAP and the budgetary basis of accounting. Animal Services' budget is adopted at the fund level, so that expenditures may not exceed appropriations at that level of detail.

Animal Services budget procedures are mandated by the Revised Code of Washington 35A.33. The steps in the budget process are as follows:

(1) Prior to October 1, Animal Services submits to the City of Lacey – Finance Department a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them.
(2) A public hearing is conducted at the animal shelter to obtain taxpayer comments.
(3) During the month of December, the budget is legally enacted through passage of an ordinance and is adopted with the City of Lacey's Annual Budget.
(4) Revisions that alter the total amount of expenses of Animal Services must be approved by the Joint Animal Services Commission.

B. Amending the budget

The budget, as adopted, constitutes the legal authority for expenses. Revisions within Animal Services are allowed, but the legislative authority following a hearing must approve supplemental or additional appropriations. The accompanying supplementary information presents both the original and amended budgetary information as approved. All appropriations lapse at year-end. Unexpended resources must be re-appropriated in the subsequent period.

Original budgeted inflows/ (outflows) as compared to the final budgeted inflows/ (outflows) were as follows:

Budget Type	Original Budget Inflows (outflows)	Final Budget Inflows (outflows)	Increase (decrease)
Year 2013			
Revenues	$ 2,058,005	$ 2,058,005	$ -
Expenses	$ (2,058,005)	$ (2,058,005)	$ -
Year 2012			
Revenues	$ 2,044,570	$ 2,044,570	$ -
Expenses	$ (2,044,570)	$ (2,044,570)	$ -
Year 2011			
Revenues	$ 1,887,171	$ 1,887,171	$ -
Expenses	$ (1,887,171)	$ (1,887,171)	$ -

NOTE 3. DEPOSITS AND INVESTMENTS

A. Deposits

Animal Services deposits and certificates of deposit are entirely covered by the federal depository insurance corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington.

B. Investments

As required by state law, all investments of Animal Services funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer's Local Government Investment Pool (LGIP), or certificates of deposit with commercial banks and savings and loan associations that are approved by the Washington Public Deposit Protection Commission (WPDPC).

The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations (RCW 43.250.020). The LGIP is comparable to a Rule 2a-7 money market fund, as currently recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum investments are reported at amortized cost (which approximates fair value). Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The reported value of the pool is the same as the fair value of the pool shares.

This investment is reported in the cash and cash equivalents in the statements of net position, as this is considered a highly liquid short-term investment, which is a criterion of cash and cash equivalents.

Interest rate risk. In accordance with its investment policy, under the City of Lacey's investment policy, the Animal Services manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 24 months. The interest rate risks of participant's balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 60 days. As of December 31, 2013, the LGIP had a weighted average maturity of 57 days.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by state law, the Animal Services, under the City of Lacey's investment policy, limits its investments in debt securities to the obligations of U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities and the State Treasurer's Local Government Investment Pool (LGIP). The credit risk of LGIP is limited as most investments are either obligations of the US government or state of Washington or its political subdivisions, government sponsored enterprises, certain limited banker's acceptances or commercial papers, or insured demand deposit accounts and certificates of deposits. The LGIP is not rated by an outside agency.

Concentration of credit risk: This is the risk of loss attributed to the magnitude of the Animal Services' investment in a single issuer. The Animal Services' policy, under the City of Lacey's investment policy, states within the exception of US Treasury securities and authorized pools, no more than thirty-three (33) percent of total portfolio may be invested with any one commercial bank institution for certificates of deposits and no more than ten (10) percent of total portfolio with any one institution for banker's acceptance.

Cash, deposits and investments for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Cash on hand	$ 450	$ 450	$ 450
Checking accounts	595,972	450,298	456,773
Washington State Investment Pool (LGIP)	1,762,893	1,760,128	1,756,960
	$ 2,359,315	$ 2,210,876	$ 2,214,183

NOTE 4. CAPITAL ASSETS AND DEPRECIATION

A. General policies

Capital assets, which include property, plant, and equipment, are reported in the Statements of Net Position. Capital Assets are defined by Animal Services as assets with an initial, individual cost of $5,000 and more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when historical cost is unknown. Donated capital assets are recorded at estimated market value at the date of donation.

B. Depreciation

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building	30 - 50
Office Equipment	5 - 20
Vehicles	8 - 10
Computer Equipment	3 - 5

C. Summary of changes

Asset Class	Balance 1/1/2013	Increase	Decrease	Balance 12/31/2013
Land	$ 589,700	$ -	$ -	$ 589,700
Building	1,861,072	-	-	1,861,072
Equipment	487,745	-	-	487,745
Construction in progress	-	29,523	-	29,523
Total costs	2,938,517	29,523	-	2,968,040
Accumulated depreciation:				
Building	960,410	56,129		1,016,539
Equipment	231,821	33,507		265,328
Total accumulated depreciation	1,192,231	89,636	-	1,281,867
Total Capital Assets - net	$ 1,746,286	$ (60,113)	$ -	$ 1,686,173

Asset Class	Balance 1/1/2012	Increase	Decrease	Balance 12/31/2012
Land	$ 589,700	$ -	$ -	$ 589,700
Building	1,861,072	-	-	1,861,072
Equipment	394,706	93,039	-	487,745
Total costs	2,845,478	93,039	-	2,938,517
Accumulated depreciation:				
Building	904,281	56,129	-	960,410
Equipment	201,043	30,778	-	231,821
Total accumulated depreciation	1,105,324	86,907	-	1,192,231
Total Capital Assets - net	$ 1,740,154	$ 6,132	$ -	$ 1,746,286

Asset Class	Balance 1/1/2011	Increase	Decrease	Balance 12/31/2011
Land	$ 589,700	$ -	$ -	$ 589,700
Building	1,861,072	-	-	1,861,072
Equipment	368,027	50,012	(23,333)	394,706
Total costs	2,818,799	50,012	(23,333)	2,845,478
Accumulated depreciation:				
Building	848,152	56,129	-	904,281
Equipment	193,770	30,606	(23,333)	201,043
Total accumulated depreciation	1,041,922	86,735	(23,333)	1,105,324
Total capital assets - net	$ 1,776,877	$ (36,723)	$ -	$ 1,740,154

NOTE 5. PENSIONS

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

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

Plan description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at age of 55 with 25 years of service, or at the age of 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement account.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

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

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but not yet receiving benefits	30,515
Active plan members Vested	106,317
Active plan members Nonvested	44,273
Total	263,347

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both Animal Services and the employees made the required contributions. The Animal Services' required and actual contributions for the years ended December 31, were as follows:

Year		PERS Plan 1		PERS Plan 2		PERS Plan 3
2013		$ 5,667		$ 46,265		$ 6,926
2012		$ 4,851		$ 39,007		$ 5,732
2011		$ 4,130		$ 33,157		$ 4,827

NOTE 6. OTHER EMPLOYEE BENEFITS

A. Deferred Compensation

Animal Services offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans with ICMA (International City Manager's Association), USCM (U.S. Conference of Mayors), and Washington State Deferred are available to all eligible employees and permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

B. Postemployment benefits other than pensions (OPEB)

In addition to the pension benefits described in Note 6-A, the Joint Animal Services provides, through the City of Lacey's participation, post employment health care benefits, *Association of Washington Cities Employee Benefit Trust ("Trust") – Non-LEOFF I Retiree Medical Plan.*

Trust Description. The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy. The Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts for 2013 valuation year:

AWC HealthFirst® 1000

$830.01 for non-Medicare enrolled retiree coverage
$837.26 for non-Medicare enrolled spouse coverage
$443.30 for Medicare enrolled retiree coverage
$456.13 for Medicare enrolled spouse coverage

AWC HealthFirst® 2500

$724.72 for non-Medicare enrolled retiree coverage
$729.99 for non-Medicare enrolled spouse coverage
$388.08 for Medicare enrolled retiree coverage
$398.04 for Medicare enrolled spouse coverage

Participating employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF I retirees. The retiree pays for 100% of the premium.

NOTE 7. CONTINGENCIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amount already collected, may constitute a liability of the Animal Services. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time. Animal Services management believes that such disallowance, if any, to be immaterial.

NOTE 8. RISK MANAGEMENT

Animal Services, under the City of Lacey's contract, is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 162 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police professional, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles may apply by type of coverage. Property insurance and auto physical damages are self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside independent actuary. The assessments cover loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA. The WCIA's financial statements can be obtained from Washington Cities Insurance Authority Treasurer, P.O. Box 88030, Tukwila, WA 98138.

There were no significant changes in insurance coverage from the previous year. The settlements have not exceeded coverage for each of the past three fiscal years.

NOTE 9. LEASES

Capital leases

The Joint Animal Services entered into lease agreement for financing office equipment. Capital lease items below the capitalization threshold are not capitalized and therefore are non-capital leases. Following lease agreement qualified as a capital lease for accounting purposes, therefore, was recorded at the present value of its minimum lease payments at the lease inception date.

The asset acquired through capital lease is as follows:

Assets:	Amount
Equipment	$ 10,183
Less: Accumulated depreciation	(6,195)
Total	$ 3,988

Future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013 are as follows:

Year Ending December 31	Amount
2014	2,326
Total minimum lease payments	2,326
Less: amount representing interest	(95)
Present value of minimum lease payments	2,231

NOTE 10. LONG-TERM LIABILITIES

A. Changes in long-term liabilities

Type of Debt	Balance 01/01/2013	Increase	Decrease	Balance 12/31/2013	Due within one year
Compensated absences	$ 63,109	$ 45,856	$ (39,427)	$ 69,538	$ 31,493
Capital leases payable	$ 4,477		$ (2,246)	$ 2,231	2,231
Loan payable	131,434		(18,661)	112,773	19,744
	$ 199,020	$ 45,856	$ (60,334)	$ 184,542	$ 53,468

Type of Debt	Balance 01/01/2012	Increase	Decrease	Balance 12/31/2012	Due within one year
Compensated absences	$ 62,795	$ 51,182	$ (50,868)	$ 63,109	$ 28,421
Capital leases payable	$ 6,541		$ (2,064)	$ 4,477	2,246
Loan payable	149,024		(17,590)	131,434	18,399
	$ 218,360	$ 51,182	$ (70,522)	$ 199,020	$ 49,066

Type of Debt	Balance 01/01/2011	Increase	Decrease	Balance 12/31/2011	Due within one year
Compensated absences	$ 62,023	$ 44,484	$ (43,712)	$ 62,795	$ 28,452
Capital leases payable	8,439		(1,898)	6,541	2,064
Loan payable	165,874		(16,850)	149,024	17,590
	$ 236,336	$ 44,484	$ (62,460)	$ 218,360	$ 48,106

B. Bonded debt

In September 1997 Animal Services issued revenue bond loan in the amount of $1,800,000, with original interest rate of 6% to provide funds for the acquisition, remodeling, and equipping of the animal services facility. The loan was subsequently refinanced in September 2003 at an interest rate of 3.9780% with final maturity date of April 2019. Interest rate was repriced in August 2008 at 4.406%, and the monthly payment was adjusted to $1,985.08. In August 2013, the interest rate was repriced at 3.1348%, and the monthly payment was adjusted to $1,916.46. Interest rate is scheduled to adjust every five years. Next repricing will occur in August 2018, at which time the monthly payment will be adjusted in accordance with the original maturity. Payments are funded by an interlocal agreement between Thurston County, City of Olympia, City of Lacey and City of Tumwater. The payments for the remaining debt as of December 31, 2013 will be funded by an interlocal agreement from the City of Olympia.

The annual requirements to maturity, including principal and interest for this loan as of December 31, 2013, are as follows:

Year Ending December 31	Principal	Interest
2014	19,744	3,253
2015	20,373	2,625
2016	21,015	1,983
2017	21,689	1,309
2018	22,379	619
2019	7,573	48
Total	$ 112,773	$ 9,837

NOTE 11. RESTRICTED ASSETS

An asset that normally would be available for use in operations may be of more limited use because of a third party constraint on how it may be used. The Animal Services has certain donations with donor limitations for the use. The balances of the restricted assets (cash and cash equivalents) are composed of the following:

		Amount		
Purpose	Source	2013	2012	2011
Nonspendable*	Donor	$ 3,726	$ 3,726	$ 3,726
Direct vet care	Donor	252,223	514,615	477,393
Public education and training	Donor	19,330	19,663	17,562
Capital projects for animal care	Donor	25,192	32,517	29,315
Total		$ 300,471	$ 570,521	$ 527,996

*Donation requested to be invested (not to be spent). Spend only interest earned.

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov