Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Lewis Mason Thurston Area Agency on Aging

Thurston County

For the period January 1, 2014 through December 31, 2014

Published July 27, 2015

Report No. 1014740

Washington State Auditor's Office

July 27, 2015

Council of Governments
Lewis Mason Thurston Area Agency on Aging
Olympia, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Lewis Mason Thurston Area Agency on Aging's financial statements and compliance with federal laws and regulations.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Lewis Mason Thurston Area Agency on Aging
Thurston County
January 1, 2014 through December 31, 2014

The results of our audit of the Lewis Mason Thurston Area Agency on Aging 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 Agency.

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

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

CFDA No.	Program Title
93.778	Medicaid Cluster - Medical Assistance Program

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

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

STATUS OF PRIOR AUDIT FINDINGS

Lewis Mason Thurston Area Agency on Aging
Thurston County
January 1, 2014 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Lewis Mason Thurston Area Agency on Aging. The State Auditor's Office has reviewed the status as presented by the Agency.

Audit Period: January 1, 2013 through December 31, 2013	**Report Ref. No.:** 1012625	**Finding Ref. No.:** 1
Finding Caption: The Agency's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.		
Background: During our audit, we identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency: • The Agency does not have procedures in place, including close supervision and oversight, to ensure information entered into its general ledger is accurate. • Agency staff responsible for compiling the financial statements did not have adequate technical knowledge of the Budget Accounting and Reporting System (BARS) manual and Governmental Accounting Standards Board (GASB) requirements when preparing the financial statements. • The Agency lacks an effective review process to ensure amounts reported on the financial statements agree to supporting records and are prepared in accordance with the BARS manual and GASB requirements		
Status of Corrective Action: (check one) ☐ Fully Corrected X Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid		
Corrective Action Taken: • *The Agency continued its use of its effective procedures, including close supervision and oversight, which ensure general ledger balances are valid, accurate, complete and adequately supported on its monthly internal financial statements. All Agency Expenditures, Reimbursements and its General Ledger are documented, balanced, reviewed, and signed by both the Fiscal Manager and the Director each and every individual month. The Agency implemented similar procedures and controls to include its annual GASB format financial statements.* • *The Agency invested in additional communication, education, and technical training to ensure effective understanding of reporting requirements and use of the BARS manual.*		

To that end, the agency has already taken the following steps:

- *Moved away from its prior statement formats.*
- *Enrolled on the GASB automated notification email list.*
- *Joined the Washington State Finance Officers Association.*
- *Participated in GFOA Annual GAAP update training 11/6/14.*
- *Invited DSHS ALTSA staff to review and comment on our procedures and reporting.*
- *Evaluated automated software packages supporting BARS reporting standards.*
- *Studied peer statements from other Washington Area Agencies on Aging.*
    - *Reviewed Northwest Regional Council*
    - *Reviewed Southwest Agency on Aging and Disability*
    - *Reviewed Olympia Area Agency on Aging*
    - *Reviewed Central and Eastern AAAs*

- *As always, LMTAAA welcomes any additional suggestions the SAO may have in order to continue improving its processes, controls and reporting.*

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*

Lewis Mason Thurston Area Agency on Aging
Thurston County
January 1, 2014 through December 31, 2014

Council of Governments
Lewis Mason Thurston Area Agency on Aging
Olympia, 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 Lewis Mason Thurston Area Agency on Aging, Thurston County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated July 20, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 20, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Lewis Mason Thurston Area Agency on Aging
Thurston County
January 1, 2014 through December 31, 2014

Council of Governments
Lewis Mason Thurston Area Agency on Aging
Olympia, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Lewis Mason Thurston Area Agency on Aging, Thurston 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, 2014. The Agency's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

PURPOSE OF THIS REPORT

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

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 20, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lewis Mason Thurston Area Agency on Aging
Thurston County
January 1, 2014 through December 31, 2014

Council of Governments
Lewis Mason Thurston Area Agency on Aging
Olympia, 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 Lewis Mason Thurston Area Agency on Aging, Thurston County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Lewis Mason Thurston Area Agency on Aging, as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 22 and budgetary comparison information on pages 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2015 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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 20, 2015

FINANCIAL SECTION

Lewis Mason Thurston Area Agency on Aging
Thurston County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Governmental Fund Balance Sheet/ Statement of Net Position – 2014
Statement of Revenues, Expenditures and Changes in Fund Balances/ Statement of Activities – 2014
Statement of Fiduciary Net Position – 2014
Statement of Changes in Fiduciary Net Position – 2014
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund– 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

Lewis Mason Thurston Area Agency on Aging
Management Discussion and Analysis
For the Year Ended December 31, 2014

We offer this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2014. We present this information in conjunction with the information included in our financial statements, which follow.

Financial Highlights

• Lewis Mason Thurston Area Agency on Aging (LMTAAA) assets exceeded liabilities by $885,733 (reported as total net position). Of this amount, $492,682 was reported as unrestricted and may be used to meet the LMTAAA's ongoing obligations to citizens and creditors.

• The LMTAAA's total net position increased by $329,578. A significantly increased Title XIX case management case load and corresponding unit rate revenues contributed to a $216K increase in Total Assets. In addition, current liabilities were down by $58K and accrual for the non-current liability Compensated Absences went down by $55K.

• At the end of the fiscal year, the LMTAAA's total fund balance for the Governmental Funds equaled $949,034, all except $53,405 of it available to spend. Management has assigned $341,250 as a Contingency Reserve and Unassigned Fund balance for the General Fund was $ 63,527. The total of the Contingency Reserve and Unassigned Fund balance is 6.45% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the LMTAAA's basic financial statements. The LMTAAA's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information. (Note: rounding differences may show slight ($1) differences in some values across different statements herein.)

The LMTAAA has one governmental fund and two private purpose trust funds. No significant changes occurred in the private purpose funds in 2014. They are named the Special Assistance Fund and the Flexible Spending Account Fund respectively.

The LMTAAA financial statements present the governmental funds statements in the left column and the government-wide statements in the far right column. No separate fund financial statements are included in this report. The adjustment columns are the reconciliation of the difference between the statements.

Government-wide financial statements

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

The statement of net position presents information on all of the LMTAAA's 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 LMTAAA is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and earned but unused vacation leave).

Fund financial statements

A fund is a grouping of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The LMTAAA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the LMTAAA are considered to be governmental funds.

Governmental funds

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets of the Lewis Mason Thurston Area Agency on Aging exceeded liabilities by $885,733 (reported as total net position). Of this amount, $492,682 was reported as unrestricted net position. Unrestricted net position represents the amount available to be used to meet the LMTAAA's ongoing obligations to citizens and creditors.

Lewis Mason Thurston Area Agency on Aging
Net Position /Governmental Activities
December 31, 2014

	2014	2013	Increase (Decrease)
Assets			
Current	$2,105,468	$1,931,653	$173,815
Net Investment in Capital Assets	123,615	80,869	$42,746
Total Assets	$2,229,083	$2,012,521	$216,561
Liabilities			
Current Liabilities	$1,156,434	$1,214,090	($57,656)
Noncurrent Liabilities	186,916	242,277	($55,361)
Total Liabilities	$1,343,350	$1,456,367	($113,018)
Net Position:			
Net Investment in Capital Assets	$123,615	$80,869	$42,746
Restricted	$269,436	$0	$269,436
Unrestricted	$492,682	$475,285	$17,397
Total Net Position	$885,733	$556,154	$329,579

The LMTAAA earns revenue by performing services on a contractual basis for the Department of Social and Health Services (96.3%), the Home Care Quality Authority (1.8%), the Multi-purpose Center of Federal Way (.9%) and other sources (1%). All contracts require that the revenue earned be used to provide services under the contract. The LMTAAA does not have any taxing authority nor does it have any direct grants.

Revenues were higher than expenditures in 2014. Expenditures associated with Title XIX Case Management/Nursing program were lower than fees received on the unit rate basis. However, some of that gain was offset in that expenditures associated our Health Home Care Coordination Organization program were higher than fees received on the unit rate basis.

The LMTAAA statement of activities reported an increase of $329,579 in Total Net Position in comparison with the prior year. The increase was largely the net result of an improved cash and accounts receivable position from the increased TXIX Case Management/Nursing case load and corresponding unit rate revenues plus an increase in our net capital assets netted against decreases in both current liabilities and the accrual for Compensated Absences liability.

Financial Analysis of the Government's Funds

The general fund is the only operating fund of the LMTAAA. At the end of the fiscal year, total fund balance for the general fund equaled $949,033 all except $53,405 of it available to spend. The general fund balance increased by $231,470 in calendar year 2014. The difference of $98,107 between government-wide net position and governmental fund balance is described in the Notes to the Financial Statements (Note 2 Reconciliation of Government – Wide and Fund Financial Statements.)

Lewis Mason Thurston Area Agency on Aging
Change in Governmental Fund Balance
For the Year Ended 12/13/14

	2014	2013	Increase (Decrease)
Revenues:			
Federal Indirect Grant Revenue	$3,128,932	$3,051,405	$77,527
State Grant Revenue	3,298,688	3,032,573	$266,115
General Revenue	75,030	14,501	60,529
Total Revenue	$6,502,650	$6,098,479	$404,171
Expenditures			
Current:			
Salaries	$2,749,893	$2,763,673	($13,780)
Benefits	1,043,251	1,007,301	$35,951
Supplies	89,485	96,507	($7,022)
Other	626,761	642,272	($15,512)
Provider subcontracts	1,679,134	1,562,484	$116,650
Capital Outlays	82,657	48,023	$34,634
Total Expenditures	$6,271,180	$6,120,260	$150,921
Change in Fund Balance	**$231,470**	**($21,781)**	**$253,251**
Adjustment	**$0**	**$1,607**	**($1,607)**
Fund Balance as of January 1	$717,562	$737,736	($20,174)
Fund Balance as of December 31	**$949,033**	**$717,562**	**$231,470**

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 financial statements.

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

Budgetary Highlights

The LMTAAA budgets anticipated expenditures to equal anticipated revenues from specific funding sources. Variance(s) will occur as actual expenditures are realized. In addition, other unanticipated revenues and interest earnings are not budgeted, and may be expended according to accompanying mandate or at the discretion of the agency.

Differences between the original budget and the final amended budget reflect initial funding amounts versus full funding amounts and adjustments to incorporate changes in available funding for specific activities. Total actual revenues were greater than final amended budget by $226K. OAA actual revenues were under budget by $70K due in part to an effort to conserve funds for 2015. State and HHS actual revenues were over budget by $214K due to greatly increased Title XIX caseload. Other actual revenues were over budget by $90K due to a number factors including additional private revenue opportunities. Lastly, actual Local Contributions were less than budgeted by $13K due to the stronger overall revenues for the year.

Total actual expenditures were under final amended budget by $5K. Of that, actual payroll expenditures were less than the final amended budget by $108K due to unfilled positions. Actual Capital Outlays were greater than budgeted by $22.7K as prior year capital investments had been postponed due to sequestration funding cuts. Lastly, actual Provider subcontract expenditures were less than budgeted by $79K due in part to fluctuations in service levels and in part to an effort to conserve funds to mitigate the effects of possible substantial reductions in funding in 2015.

Capital Assets and long-term liability activity

The LMTAAA’s investment in capital assets as of December 31, 2013 amounts to $123,615, net of accumulated depreciation. This investment is in furniture and equipment including leasehold improvements, and intangible assets; the LMTAAA has no other type of capital asset and has no infrastructure to account for.

Additional information on the LMTAAA’s Capital Assets can be found in Note 5.

LMTAAA received a $1,027,693 cash advance from the Department of Social and Health Services. The purpose of this advance is to allow the AAA cash flow in order to reimburse service providers; otherwise, providers would not receive payment until the AAA could bill and receive payment from DSHS. The advance amount is reviewed and adjusted each year. Consistent with 2013, this liability has been recorded as a Current Liability for 2014.

An Estimated Liability for Compensated Absences is included as a long-term liability in the government-wide Statement of Net Position (see Notes to the Financial Statements: Note 1, E, 7)

Economic Factors and Next Year's Budgets and Rates

• Revenue forecasts for the 2013-15 Biennium reflect limited growth in State General Fund revenues.

• Federal funds awarded under Older Americans Act are expected to increase in 2015, due to the impacts of federal sequestration.

• Employment within Washington State is expected to remain good, with the overall rate of employment growth for the next several years almost the same as the employment growth rate nationwide.

Since a substantial percentage (96.3% in calendar year 2014) of LMTAAA's revenues are state or federal resources, LMTAAA governing board members and management will consider these factors in preparing the LMTAAA's budget for future years.

Requests for Information

This financial report is designed to provide a general overview of the LMTAAA's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Director, 2404 Heritage Ct SW, Suite A, Olympia, WA 98502.

Budget variances in the general fund

The LMTAAA budgets anticipated expenditures to equal anticipated revenues from specific funding sources. Variance(s) will occur as actual expenditures are realized. In addition, other unanticipated revenues and interest earnings are not budgeted, and may be expended according to accompanying mandate or at the discretion of the agency.

Lewis Mason Thurston Area Agency on Aging
Governmental Funds Balance Sheet / Statement of Net Position
December 31, 2014

	Governmental Funds Balance Sheet	Adjustments	Statement of Net Position
ASSETS			
Cash and Cash Equivalents	$ 963,947		$ 963,947
Receivables	$ 1,086,995		$ 1,086,995
Interest Receivable	$ 1,121		$ 1,121
Prepaid Expense	$ 53,405		$ 53,405
Capital Assets (Net) (see Note 5)		$ 123,615	$ 123,615
TOTAL ASSETS	$2,105,468	$123,615	$2,229,083
LIABILITIES AND FUND EQUITY			
Vouchers Payable	$ 128,741		$ 128,741
Due to Other Governments	$ 1,027,693		$ 1,027,693
Non-current liabilities:			
Compensated Absences		$ 186,916	$ 186,916
TOTAL LIABILITIES	$1,156,434	$186,916	$1,343,350
FUND BALANCES/NET POSITION			
Fund Balances			
Nonspendable:			
Prepaid Expenses	$ 53,405	$ (53,405)	
Restricted For:			
TXIX Medicaid/Aging Network	$ 265,605	$ (265,605)	
Resource Directory	$ -	$ -	
Senior Farmer's Market Nutrition Program	$ 1,003	$ (1,003)	
Aging Readinesss	$ 2,828	$ (2,828)	
Family Caregiver Support Program	$ -	$ -	
Committed to:			
Vacation/Sick Leave	$ 186,916	$ (186,916)	
Assigned To:			
Contingency Reserve	$ 341,250	$ (341,250)	
2015 Nutrition Program Support	$ 30,000	$ (30,000)	
2015 Other Area Plan Activity Support	$ 4,500	$ (4,500)	
Unassigned	$ 63,527	$ (63,527)	
Total Fund Balances	$949,034	($949,034)	
Total Liabilities and Fund Balances	$2,105,468		
NET POSITION			
Net Investment in Capital Assets		$123,615	$123,615
Restricted		$269,436	$269,436
Unrestricted		$492,682	$492,682
Total Net Position		$885,733	$885,733

The accompanying notes are an integral part of this statement.

Lewis Mason Thurston Area Agency on Aging
Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

For the Year Ended December 31, 2014

	General Fund	Adjustments	Statement of Activities
Expenditures:			
Current:			
Salaries	$ 2,749,893	$ (55,361)	$ 2,694,531
Benefits	$ 1,043,251		$ 1,043,251
Supplies	$ 89,485		$ 89,485
Other	$ 626,761		$ 626,761
Provider subcontracts	$ 1,679,134		$ 1,679,134
Depreciation/Amortization		$ 39,911	$ 39,911
Capital Outlays	$ 82,657	$ (82,657)	$ -
Total Expenditures	$6,271,180	($98,107)	$6,173,073
Revenues:			
Federal Program Revenue	$ 3,128,932		$ 3,128,932
State Program Revenue	$ 3,298,688		$ 3,298,688
Other Revenue	$ 69,508		$ 69,508
Investment Earnings	$ 5,523		$ 5,523
Total Revenue	$6,502,650		$6,502,650
Excess(deficiency) of Revenue over(under) Expenditures	$231,470	$98,107	$329,578
Fund Balances/Net Position			
Beginning of the Year	$717,562	($161,408)	$556,154
End of the Year	$949,032	($63,301)	$885,732

The accompanying notes are an integral part of this statement.

LMTAAA Private Purpose Trust Funds
Statement of Fiduciary Net Position
December 31, 2014

ASSETS		
Special Assistance Fund	$	26,603
Flexible Spending Account	$	3,723
Cash and Cash Equivalents	$	30,326
NET POSITION		
Special Assistance Fund	$	26,603
Flexible Spending Account	$	3,723
Total Held in Trust	$	30,326

LMTAAA Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2014

		Private Purpose Trust Funds
ADDITIONS		
Special Assistance Fund Revenue	$	13,149
Flexible Spending Account Revenue	$	23,096
TOTAL ADDITIONS	$	36,245
DEDUCTIONS		
Special Assistance Fund Disbursement	$	14,655
Flexible Spending Account Disbursement	$	23,548
TOTAL DEDUCTIONS	$	38,203
NET DECREASE IN NET POSITION	$	(1,958)
NET POSITION-BEGINNING	$	32,284
NET POSITION-ENDING	$	30,326

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Lewis Mason Thurston Area Agency on Aging (LMTAAA) was incorporated in 1976 and operates under the Inter-local Cooperation Act of the state of Washington applicable to Council of Governments.

The LMTAAA is a federally created, state designated, political subdivision, organized to assist in the development of a comprehensive and coordinated service system for senior citizens. Its major functions are funding, coordinating, planning, providing direct services and advocating, to bring about this system.

Through a process of public hearings, surveys, research, and implementation of federal and state law and policies, an annual area plan is developed detailing the services to be provided and the issues to be worked on. A small professional staff operates the Agency, which provides or contracts for the provision of services to eligible individuals. Contracted services are delivered by a variety of private and public non-profit and for profit organizations. A consumer based advisory council offers guidance to staff.

The LMTAAA is responsible to the federal Administration for Community Living and the Washington State Department of Social and Health Services (DSHS), Aging and Long Term Support Administration, which oversees the Area Plan. Locally the Agency is governed by a Council of Governments created collectively by the counties of Lewis, Mason and Thurston.

The LMTAAA has no component units.

B. Government-Wide and Fund Financial Statements

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

The government-wide Statement of Activities has been combined with the Governmental General Fund Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances. This statement 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 not to allocate indirect costs to a specific function or segment. Fiduciary funds are not included in the government-wide 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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from specific funding sources and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The general fund is the operating fund and is the only governmental fund reported.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recognized when earned and expenses when incurred. LMTAAA accounts for two private-purpose trust funds: The Special Assistance Fund is used to account for contributions received from community members on behalf of needy seniors. The Flexible Spending Account accounts for funds deducted from employee paychecks used to pay claims approved for reimbursement. The Flexible Spending Account balance on the Statement of Fiduciary Net Position is equal to the cash balance available as of December 31 each year. While this is a departure from GAAP, the difference is not material.

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

D. Budgetary Information

Scope of Budget

The LMTAAA prepares four budgets annually: the Area Plan which budgets all activities on a calendar year and is non-contractual; the State/Federal budget which is on the state fiscal year and is contractual; the Ombudsman Program budget which is on the state fiscal year and is contractual; and the Older American Act budget which is on a calendar year and is contractual. The LMTAAA also prepares a two year budget for the Home Care Referral Registry Program on a state fiscal year basis and is contractual. In addition, certain budgetary amounts may be provided to Thurston County as expenditure authorization limits for their processing of LMTAAA's vendor payments and is non-contractual. All budgets are prepared on the accrual basis.

The Area Agency on Aging's budget requirements are mandated primarily by the Washington State Department of Social and Health Services, Aging and Long Term Support Administration (ALTSA) and the Older Americans Act. The contracted budgets are the legal basis for expenditures. ALTSA must approve supplemental appropriations and other major changes. Up to 10% of Older American's Act appropriations can be carried over in to the subsequent calendar year. Title XIX and state funded program appropriations cannot be carried over.

Indirect Awards

Older Americans Act – all people over the age of 60 are eligible to receive services provided by the Older Americans Act. The program is aimed at serving low-income, frail, and isolated elderly and others most in need of service. Programs under the Older Americans Act are identified by title as follows:

Title 3B provides funds for social and support services.

Title 3C-1 provides funds for congregate meals.

Title 3C-2 provides funds for home delivered meals.

Title 3D provides funds for specific in-home services.

Title 3E provides funds for family caregivers.

Title 7B provides funds for abuse prevention

Title XIX is matched with state funds and used to provide the Community Options Program Entry System (COPES) services, case management services, personal care services and nurse consultation for Title XIX clients.

Nutrition Services Incentive Program (NSIP) provides funds for the purchase of food to be used in the congregate and home delivered nutrition programs.

Medicare Improvement for Patients and Providers Act provides outreach and assistance for elderly and disabled individuals eligible for specified Medicare programs. (This program was not funded in 2014.)

State Awards

Senior Citizen Services Act provides a variety of social services. Some programs require client participation on a sliding fee scale and some are provided on a donation basis.

Family Caregiver provides funds for services to unpaid caregivers providing services to family members.

Kinship Caregiver Support Program provides funds for emergent needs of caregivers and their dependents.

Kinship Navigator Program provides kinship caregivers with information and assistance in navigating the system of services for children cared for by relatives and reduces barriers faced by kinship caregiver when accessing services.

Senior Drug Education provides funds to inform and educate about safe and appropriate use of prescription and nonprescription medications.

Senior Farmer's Market Nutrition Program provides vouchers to seniors for use at farmer's markets and basic food and nutrition education.

The Director is authorized to transfer certain budgeted amounts between programs and/or funding sources; however, any revisions that alter the total expenditures of the Area Agency, amend a contracted budget, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Council of Governments. When the Council of Governments determines that it is in the best interest of the LMTAAA to amend a contracted budget, it may do so by resolution approved by a minimum of two commissioners.

E. Assets, Liabilities and Equities

1. Cash

It is the LMTAAA's policy to invest all temporary cash surpluses. At December 31, 2014, the Thurston County Treasurer was holding $ 963,947 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash in the General Fund. Earnings on investments are credited to the General Fund.

Through the Thurston County Treasurer, the LMTAAA's surplus cash balances are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

3. Receivables

Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consist of amounts owed by non-profit organizations for services billed through December 31, 2014.

Amounts Due from Other Governments consists of amounts billed to DSHS for services rendered for which payment had not been received at December 31, 2014 but which was expected within 60 days.

4. Prepaid Assets

LMTAAA accounts for prepaid assets using the consumption method. The purchase is reported as an asset and the recognition of the expenditure is deferred until the period in which the expense is actually incurred.

5. Amounts Due to and from Other Governmental Units

These amounts include funds due to State of Washington, Department of Social and Health Services (DSHS), for a two-month working capital advance of service dollars. Additional funds may be requested under this agreement with the submittal of Documentation of Funds as required by DSHS Office of Accounting Services.

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

Capital assets, which include property, plant, and equipment, are reported net on the Statement of Net Position. Capital assets are defined by the LMTAAA as assets with an initial, individual cost of more than $2,500 and an estimated useful life in excess of one year. Also included are attractive assets with a value greater than $100. These items that have a high risk for loss, for example laptop computers. 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Computers	4 years
Office Equipment	4 years
Office Furniture	7 years

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave and compensatory time. All vacation, sick leave and compensatory time are accrued when incurred in the government-wide financial statements. Vacation pay, which may be accumulated up to 1,480 hours, is payable up to 240 hours upon termination of employment. Compensatory time, an alternative to overtime pay, is accrued at time and a half up to a maximum of 120 hours, and is also payable upon termination of employment.

8. Fund Balance

The LMTAAA Council of Governments (COG) adopted Resolution No. 15-01 directing LMTAAA to account for fund balance amounts as non-spendable, restricted, committed, assigned or unassigned in accordance with the Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions.

<u>Fund Balance Classification</u>

Non spendable fund balance includes items that cannot be spent. This amount of $53,405 includes rents and other prepaid insurance expenses.

Restricted fund balance of $269,436 represents resources that are available to spend subject to externally enforceable legal restrictions on how they may be used. $265,605 is restricted for Title XIX Medicaid or Aging Network Programs and $1,003 is restricted for Senior Farmers Market Nutrition Program and $2,828 is for the Aging Readiness program. LMTAAA considers restricted or unrestricted amounts have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Committed fund balance is resources constrained by limitations that the government imposes upon itself at the highest level of decision making through formal action of the LMTAAA COG via resolution, contract signing, and/or policy approval. Once adopted, signed, or approved, the limitation imposed by the resolution/contract/policy remains in place until a similar action is taken to remove or revise the limitation. At year end, $189,916 is committed for vacation and sick leave accrual.

Assigned fund balance reflects a government's intended use of resources. The LMTAAA COG approves the LMTAAA Area Plan document and budget each year. In these documents, Management assigns amounts to specific purposes. Unlike fund commitments, these amounts and purposes only exist temporarily. Additional formal action does not normally have to be taken for the removal of an assignment. At year end, Management has assigned $34,500 to support our approved 2015 Area Plan objectives including $30,000 for our Senior Nutrition program and $2,500 for the United Way RSVP and $2,000 for Senior Companion program.

Assigned fund balance - Minimum fund balance
LMTAAA COG Resolution 15-01 directs LMTAAA to maintain a minimum General Fund Contingency Reserve. The Contingency Reserve will be classified as Assigned Fund Balance and is intended to be used in the event of unanticipated circumstances, such as natural disaster, a lawsuit, a federal or state temporary shutdown, unexpected significant budget cuts, or unanticipated replacement of infrastructure such as computer networks or telephone systems. Management has assigned a target to maintain a fund balance of no less than 5% of annual expenditures. Movement of funds in and out of this reserve is at the discretion of the Director and is reported to the governing board at their next scheduled meeting. All accounting adjustments to Fund Balances will take place at the end of the fiscal year and will be authorized by the Fiscal Manager and approved by the Director.

Unassigned fund balance is the residual amount not included in the four categories described above.

LMTAAA considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

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

Items not recorded in the governmental fund balance sheet:

Capital assets	$123,615
Compensated absences	$186,916

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

General fund expenditures	$6,271,180
Less change to accrual for compensated absences	(55,361)
Plus depreciation expense	39,911
Less Capital Outlays	(82,657)
Government-wide activities	$6,173,073

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

LMTAAA receives money in the form of Electronic Funds Transfers (EFTs) and paper checks. All EFTs and most checks are deposited into the Thurston County Treasurer's account at Key Bank and are insured by federal depository insurance (FDIC). A small amount of money is also received in the form of checks and cash and is deposited into a separate bank account for the Special Assistance Fund at the Bank of America. Voluntary payroll deductions for the Flexible Spending Account benefit program are deposited into an insured account, also at Bank of America.

B. INVESTMENTS

All surplus funds of the Lewis Mason Thurston Area Agency on Aging are invested by the Thurston County Treasurer in accordance with county investment policies. These policies are available from the Thurston County Treasurer.

The office of the Thurston County Treasurer provides treasury functions for LMTAAA including holding funds in an investment account. LMTAAA does not hold any other investments and therefore does not have a policy for custodial credit risk.

NOTE 5 – CAPITAL ASSETS

Although depreciation of capital assets is not recorded in governmental funds, straight-line depreciation is calculated for presentation purposes and accumulated depreciation is recorded in the capital assets reported on the Balance Sheet.

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beg. Balances	Additions	Adjustments	Retirements	Ending Balances
Furniture, fixtures and equipment	197,425	$ 63,456	0	(6,179)	254,703
Less accumulated depreciation	(129,202)	(36,976)	0	6,179	(159,999)
Furniture, fixtures, and equipment, Net	68,223	26,480	0	0	94,704
Leasehold Improvements	16,485	19,201	0	0	35,686
Less Accumulated Amortization	(3,840)	(2,935)	0	0	(6,775)
Leasehold Improvements, Net	12,645	16,266	0	0	28,911
NET TOTALS	$80,868	$ 7,172	$ 0	$ 0	$123,615

NOTE 6 - PENSION PLANS

Substantially all LMTAAA 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 and defined contribution 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. The CAFR may also be found at: www.drs.wa.gov/Administration/AnnualReport/CAFR/.

The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.*

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

Plan Description

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

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.
PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from

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

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

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

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.
PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is

reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

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

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65. PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

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

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

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

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

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

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

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

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

• If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

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

• If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.
A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,318 participating employers in PERS as of June 30, 2014. Membership in PERS consisted of the following as of the latest actuarial valuation for the plans of June 30, 2014:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet	
Receiving Benefits	31,047
Active Plan Members Vested	107,073
Active Plan Members Non-vested	43,633
Total	**267,081**

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.

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, 2014, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.924%	***

* The employer rates include the employer administrative expense fee currently set at .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 LMTAAA and the employees made the required contributions. The LMTAAA's required contributions for the year ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$ 0	$ 225,939	$ 26,303
2013	$ 377	$ 201,429	$ 22,334
2012	$ 3,458	$ 186,349	$ 18,748

The Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington, Committee for Deferred Compensation. The plan, available to all employees, permits 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.

In June 1998 the State of Washington Deferred Compensation Program plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since the Lewis/Mason/Thurston Area Agency on Aging is not the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer reported as an Agency Fund.

NOTE 7 - RISK MANAGEMENT

Lewis-Mason-Thurston Area Agency on Aging is insured by Enduris, formerly the Washington Governmental Entities Pool (WGEP). Coverage consists of the following:

Type of Coverage	Amount of Coverage	Deductible
Liability:		
Comprehensive General Liability	$ 10,000,000	$ 1,000
Employment Dishonesty	$ 250,000	$ 1,000
Employment Practices Liability	$ 10,000,000	$ 1,000
Terrorism Liability	$ 500,000	$ 1,000
Public Official Errors & Omission	$ 10,000,000	$ 1,000
Auto Liability	$ 10,000,000	$ 1,000

Washington State DSHS Aging & Disability Services Administration, MPH Holdings, Byron Debban and DeLage Landen are co-insured.

Type of Coverage	Amount of Coverage	Deductible
Property Coverage:		
Olympia office	$ 385,000	$ 1,000
Chehalis office	$ 97,000	$ 1,000
Shelton office	$ 66,000	$ 1,000

There were no claims, losses or settlements in 2014.

NOTE 8 – LEASES

The LMTAAA leases its buildings and a few pieces of equipment under operating leases. Total cost for such leases was $ 335,987 for the year ended December 31, 2014. The future minimum lease payments for these lease payments are as follows:

CYE 12/31	Amount	
2015	$ 363,884	
2016	357,884	Note: Shelton site lease ends 9/26/16.
2017	335,454	
2018	283,222	Note: Chehalis site lease ends in 4/30/18.
2019-2023	$ 250,926	

NOTE 9 – CONTINGENCIES AND LITIGATIONS

The LMTAAA has recorded all known material liabilities in its financial statements.

The LMTAAA participates in a number of federal and state funded programs. These funding awards 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 award. LMTAAA management believes that such disallowances, if any, will be immaterial.

Lewis Mason Thurston AAA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Amended Budget	Actual	$ Difference
Budgetary Fund Balance, January 1			$ 717,562	
OAA	$1,279,545	$1,321,342	1,251,397	($69,945)
NSIP	123,599	127,001	123,600	($3,401)
State	1,257,640	1,283,464	1,414,394	$130,930
HHS	3,112,935	3,134,982	3,218,335	$83,353
Misc. awards	202,859	206,400	214,597	$8,197
Other	169,922	166,541	256,897	$90,356
Local Contributions	36,500	36,500	23,429	($13,071)
Amounts Available for Appropriation	$6,183,000	$6,276,230	$6,502,650	$226,420
Payroll	3,920,500	3,901,230	3,793,144	$108,086
Supplies	70,000	80,000	89,485	($9,485)
Services	59,000	55,000	49,157	$5,843
Capital Outlays	10,000	60,000	82,657	($22,657)
Miscellaneous	604,000	580,000	577,603	$2,397
Provider contracts	1,519,500	1,600,000	1,679,134	($79,134)
Total Charges to Appropriations	6,183,000	$6,276,230	$6,271,180	$5,050
Budgetary Fund Balance, December 31			$949,032	$231,470

Note: Original Budget OAA and NSIP values were taken from our DSHS ALTSA approved 2014 Area Plan Budget. Final Amended Budget revenue values are from signed contracts. OAA values match the calendar year. State and HHS values are estimates of 50% from SFY2014 and 50% from SFY2015. Misc. awards Original Budget values are taken from internal planning budget workbooks. Other Original Budget values are prior year actual amounts for Multi-Service Center, HCRR, Misc., and Interest. Other Final Amended Budget values are contract amounts for Multi-Service Center and HCRR and estimated values for Misc. and Interest.

Budget expense values were estimated from prior year actual amounts and from internal Planning Budget workbooks.

Lewis Mason Thurston Area Agency on Aging
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
Aging Cluster							
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	1469-93694	525,904	-	525,904	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	1469-93694	525,092	-	525,092	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Nutrition Services Incentive Program	93.053	1469-93694	123,600	-	123,600	3
			Total Aging Cluster:	**1,174,596**	**-**	**1,174,596**	
Medicaid Cluster							
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Medical Assistance Program	93.778	1369-78320, 1469-14543	1,666,364	-	1,666,364	4
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS HCQA)	Medical Assistance Program	93.778	1369-80547, 1469-16974	60,643	-	60,643	
			Total Medicaid Cluster:	**1,727,007**	**-**	**1,727,007**	
Other Programs							
Food And Nutrition Service, Department Of Agriculture (via DSHS)	Senior Farmers Market Nutrition Program	10.576	1369-78320, 1469-14543	12,341	-	12,341	5
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	1469-93694	3,533	-	3,533	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	From Direct Awards	Total	Note
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	1469-93694	7,220	-	7,220	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	National Family Caregiver Support, Title III, Part E	93.052	1469-93694	142,378	-	142,378	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Medicare Enrollment Assistance Program	93.071	1369-92780, 1469-28492	13,740	-	13,740	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Affordable Care Act – Aging and Disability Resource Center	93.517	1369-78494	15,311	-	15,311	
Administration For Community Living, Department Of Health And Human Services (via DSHS)	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by Prevention and Public Health Funds (PPHF)	93.734	1269-63910	18,751	-	18,751	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS)	Money Follows the Person Rebalancing Demonstration	93.791	1369-78320, 1469-14543	13,763	-	13,763	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via DSHS HCQA)	Money Follows the Person Rebalancing Demonstration	93.791	1369-80547, 1469-16974	292	-	292	
			Total CFDA 93.791:	**14,055**	**-**	**14,055**	
			Total Federal Awards Expended:	**3,128,932**	**-**	**3,128,932**	

The accompanying notes are an integral part of this statement.

LEWIS MASON THURSTON AREA AGENCY ON AGING
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

The schedule is prepared on the same basis of accounting as the Lewis Mason Thurston Area Agency on Aging's (LMTAAA) financial statements. The LMTAAA uses the modified accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 – NUTRITION SERVICES INCENTIVE PROGRAM

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

NOTE 4 – TITLE XIX

Specific awards are identified for expenditures incurred for Core Services Contract Management and DDD Nursing. Revenues are based on a unit rate for Nursing Services and Case Management under these contracts.

NOTE 5 – NONCASH AWARDS – SENIOR FARMER MARKET VOUCHERS

The amount of Senior Farmer Market Nutrition Program (SFMNP) vouchers reported on the schedule includes the value of SFMNP vouchers received by the LMTAAA during current year and priced by the State of Washington Aging and Long-Term Support Administration.

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.

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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.

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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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