Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Lewis Mason Thurston Area Agency on Aging

For the period January 1, 2018 through December 31, 2018

Published September 23, 2019

Report No. 1024632

Office of the Washington State Auditor
Pat McCarthy

September 23, 2019

Board of Commissioners
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,

Pat McCarthy

State Auditor

Olympia, WA

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Lewis Mason Thurston Area Agency on Aging
January 1, 2018 through December 13, 2018

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Lewis Mason Thurston Area Agency on Aging are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
93.044	Aging Cluster – Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers
93.045	Aging Cluster – Special Programs for the Aging, Title III, Part C, Nutrition Services
93.053	Aging Cluster – Nutrition Services Incentive Program
93.778	Medicaid Cluster – Medical Assistance Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The Agency did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2018-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Lewis Mason Thurston Area Agency on Aging
January 1, 2018 through December 31, 2018

2018-001 The Agency's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and complete reporting of fiduciary funds.

Background

Agency management is responsible for designing, implementing and maintaining internal controls to fairly present financial statements and provide reasonable assurance regarding the reliability of those statements.

The Agency prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the *Budgeting, Accounting and Reporting System* (BARS) Manual.

The Agency's Special Assistance Fund represents donations of cash and cash-like items, such as gift cards, that are receipted by the Agency's three locations as revenue to be disbursed to eligible clients who qualify for assistance.

Our audit identified deficiencies in controls over the accounting and financial statement reporting of the Special Assistance Fund that hindered the Agency's ability to produce reliable financial statements. These deficiencies represent a material weakness.

Government Auditing Standards requires the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

The Agency did not have an effective review process to detect and correct errors to ensure the Special Assistance Fund balances were accurate. This control deficiency led to the over-reporting of revenues and expenses as well as other minor misstatements.

Cause of Condition

The Agency's final review of the financial statements, which is designed to evaluate the proper accounting treatment of transactions, lacked sufficient detail to identify errors in the financial statements. In addition, the Agency did not actively monitor the receipting and disbursement of gift card donations to ensure transactions were adequately supported by documentation and properly reported.

Effect of Condition

Our audit of the Agency's financial statements identified the following errors:

- The Agency erroneously reported $34,150 in revenues and disbursements for its Special Assistance Fund related to the transfer of funds from one checking account to another. This should have been netted for reporting purposes.
- The Agency did not maintain adequate support for revenues and disbursements. As a result, we could not substantiate $3,895 of revenues and $2,310 of disbursements that were reported in the Special Assistance Fund.

In addition, we noted other immaterial errors for balances reported on the fiduciary fund statements.

Recommendations

We recommend the Agency continue to improve internal controls over the accounting and financial statement processes to ensure amounts reported are adequately supported and accurate. We specifically recommend the Agency dedicate time and resources to ensure donations receipted and disbursed by the Agency are properly tracked and accounted for. We further recommend the Agency strengthen the final, detailed review of the financial statements to ensure the fiduciary funds are accurate and meet reporting standards.

Agency's Response

As noted in the finding, during the preparation of the 2018 financial statements, the final review of the financial statements lacked sufficient detail to identify errors in the fiduciary financial statements, especially in regard to the Special Assistance Fund. In addition, we did not provide adequate evidence/tracking of the receipting and donation of gift card donations to the Special Assistance Fund.

The initial accounting errors leading to the misstatement of the Special Assistance Fund (SAF) specifically and the fiduciary fund statements took place early in 2018, before we had the advantage of fully trained additional accounting staff. Errors were made in the initial recording of revenues and disbursements, and the financial statement preparation process did not detect and correct those initial errors. In addition, we did not initially realize the popularity of gift cards as a mode of SAF requests, donations and disbursements during the year, but only at year's end during financial preparation. Even before the audit, we had planned to revisit and improve our SAF operational processes. This finding provides additional focus to include our accounting and reporting processes in these upcoming improvements.

The following are our planned corrective action steps.

1. We still need to take adequate time to prepare and review the financial statements; we have improved in this area, but still have some work to do. We will strive to more timely complete our other tasks, to give us additional time to establish and consistently use improved processes for Financial Statement preparation and review.

2. We believe the hiring of additional fiscal staff, reassigning existing staff, and focusing on training the fiscal team has already had positive impacts. We plan to continue pursue appropriate training of our fiscal staff.

3. We are currently beginning a process to strengthen operational cooperation and controls over the entire SAF process, beginning with the upcoming holiday season large request/donation/disbursements cycle. LMTAAA management is committed to improving these processes.

4. Fiscal staff will track gift cards' requests, donations and disbursements more closely, with a more robust audit trail.

5. We will enhance our financial statement review process, perhaps implementing some analytic procedures.

6. We will consider the effect of GASB 84, Fiduciary Activities, on our fiduciary accounting and reporting. At least one staff member will attend training dealing with GASB 84.

We believe these steps will improve our accounting and financial statements reporting in general, and specifically for our fiduciary activities

Auditor's Remarks

We appreciate the Agency's response and recognize that the Agency is committed to ongoing quality improvement.

We also wish to thank Agency management for their cooperation and assistance during our audit. We look forward to working with the Agency on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

The *Budgeting, Accounting and Reporting Systems* (BARS) manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objective.

RCW 43.09.200 – Local government accounting – Uniform system of accounting requires the State auditor to prescribe the system of accounting and reporting for all local governments.

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
January 1, 2018 through December 31, 2018

Board of Commissioners
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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 12, 2019.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be a material weakness.

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*.

AGENCY'S RESPONSE TO FINDINGS

The Agency's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Pat McCarthy

State Auditor

Olympia, WA

September 12, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Lewis Mason Thurston Area Agency on Aging
January 1, 2018 through December 13, 2018

Board of Commissioners
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, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 13, 2018. The Agency's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 13, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. 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.

Pat McCarthy

State Auditor

Olympia, WA

September 12, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lewis Mason Thurston Area Agency on Aging
January 1, 2018 through December 31, 2018

Board of Commissioners
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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed on page 19.

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, 2018, 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 and required supplementary information listed on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019 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.

Pat McCarthy

State Auditor

Olympia, WA

September 12, 2019

FINANCIAL SECTION

Lewis Mason Thurston Area Agency on Aging
January 1, 2018 through December 31, 2018

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Lewis Mason Thurston Area Agency on Aging
January 1, 2018 through December 31, 2018

Management's Discussion and Analysis

We offer this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2018. 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 and deferred outflows exceeded liabilities and deferred inflows by $1,119,566 (reported as total net position); this is a $702,533 increase over 2017.
- At the end of the fiscal year, the total fund balance for LMTAAA's governmental funds was $4,528,797. That represents a $722,802 increase for the year. Governmental funds' revenues exceeded expenditures by $621,360.
- Much of that excess of agency revenues over expenditures in 2018 is due to Title XIX Case Management/Nursing Services and Core Services Contract Management revenues (based on a unit rate) being $796,214 higher than the actual costs to provide these TXIX services. On the other hand, year 2 of the Medicaid Transformation Demonstration waiver saw costs to provide those services exceeding revenues by $66,586 during 2018.
- The working capital advance from DSHS (shown on the Funds' presentation of the financial statements as an Other Financing Source) increased by $101,442.
- Management retained the $950,000 as an assigned fund balance for contingency reserve for 2018; unassigned fund balance for the general fund was $119,535.
- Long-term liabilities for the government-wide statements decreased by $144,368 during the year, due to net pension liability decreasing by $266,382.

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.

The LMTAAA has one governmental fund and two private purpose trust funds. No significant changes occurred in the private purpose funds in 2018. They are named the Special Assistance Fund and the Flexible Spending Account Fund respectively. Statements for these private trust funds are included in the governmental fund statements. Neither the private purpose funds' balances nor activity are included in the government-wide financial statements.

The LMTAAA financial statements present the governmental funds statements in the left column and the government-wide statements in the far right column. Other than the private purpose funds' statements, no separate fund financial statements are included in this report. The adjustment columns are the reconciliation of the difference between the statements.

Some numbers may not total due to rounding.

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, liabilities, and deferred inflows/outflows of resources, with the difference 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 alternative 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. LMTAAA has a general fund, which is a governmental fund.

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

Government-Wide Financial Analysis
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets and deferred outflows of the Lewis Mason Thurston Area Agency on Aging exceeded liabilities and deferred inflows by $1,119,566 (reported as total net position). Of this amount, ($1,920,568) was reported as unrestricted. 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 Assets /Governmental Activities
December 31, 2018

	2018	2017	Increase (Decrease)
Assets			
Current	$4,884,817	$4,007,668	$877,149
Capital Assets	80,570	94,830	(14,260)
Total Assets	$4,965,387	$4,102,498	$ 862,889

Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	$489,089	$361,454	$127,635
Liabilities			
Current Liabilities	$356,020	$201,672	154,348
Noncurrent Liabilities	1,442,500	1,320,036	122,464
Net Pension Liability	1,704,121	1,970,953	(266,832)
Total Liabilities	$3,502,641	$3,492,661	($9,980)
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	$832,269	$ 554,257	$278,012
Net Position:			
Net Investments in Capital Assets	$80,570	$94,830	($14,260)
Restricted	2,959,564	2,264,997	694,567
Unrestricted	(1,920,568)	(1,942,794)	22,226
Total Net Position	$1,119,566	($417,033)	$702,533

The 2017 Restricted and Unrestricted Net Position amounts have been restated in the statement above. In 2017, we erroneously omitted the DSHS Working Capital Advance in the Restricted Net position amount. This error and restatement does not affect Total Net Position, only the designation of Restricted versus Unrestricted.

The LMTAAA earns revenue by performing services on a contractual basis for the Department of Social and Health Services (98.8%), the Multi-Service Center of Federal Way (1.0%) and other sources (0.2%). 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 receive any direct grants.

2018 revenues were higher than expenditures. Expenditures associated with Title XIX Case Management/Nursing program were lower than fees received on the unit rate basis. In addition, because of a reduction in PERS2/3 liabilities, the net pension liability decreased by $266,832.

The LMTAAA statement of activities reported an increase of $702,533 in Total Net Position in 2018.

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 $4,528,797, $1,415,721 of it is available to spend. The general fund balance increased by $722,802 in calendar year 2018. The excess of revenues over expenditures of $621,360 was supplemented by other financing source of additional working capital advance from DSHS of $101,442.

Lewis Mason Thurston Area Agency on Aging
Change in Governmental Fund Balance
For the Year Ended 12/13/18

	2018	**2017**	**Increase (Decrease)**
Revenues:			
Federal Indirect Grant Revenue	$4,296,439	$3,966,477	$329,992
State Grant Revenue	4,052,871	3,893,952	158,919
General Revenue	14,981	17,461	(2,480)
Total Revenue	$8,364,291	$7,877,860	$486,631
Other Financing Sources – Additional Working Capital Advance	$101,442	$113,561	($12,119)
Expenditures			
Current:			
Salaries	$3,334,785	$3,014,776	$320,009
Benefits	1,376,401	1,229,005	147,396
Supplies	115,127	79,383	35,744
Rents and leases	432,319	429,862	2,457
Other	383,065	358,953	24,112
Provider subcontracts	2,068,425	1,880,724	187,701
Capital Outlays	32,809	13,210	19,599
Total Expenditures	$7,742,931	$7,005,913	$737,018
Change in Fund Balance	**$722,802**	**$985,508**	**($262,706)**
Prior Period Adjustments	0	($34,801)	$34,801
Fund Balance as of January 1	$3,805,995	$2,855,288	$950,707
Fund Balance as of December 31	**$4,528,797**	**$3,805,995**	**$722,802**

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.

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 final amended funding amounts and adjustments to incorporate changes in available funding for specific activities. Total actual revenues were less than budgeted amounts by $849,361 due to underspending of several of the grants' specific line items during the year. Actual expenditures were also less than budgeted, by $509,282, due to vacancies in personnel. Local Contributions / reserves were used to cover $136,503 of total operational costs; these were charged to Title XIX Medicaid Aging Network reserved fund balance.

Working Capital Advances: Long-term liability/restricted fund balance
In 2018, LMTAAA received an additional $101,442 in working capital advances from Washington State Department of Social and Health Services (DSHS) for State Fiscal Year 2019, bringing the total working capital advance to $1,238,620. The purpose of these advances 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 annually and can be adjusted each year. For 2018 this is again presented as a long-term liability in the government-wide Statement of Net Position, but as a restricted fund balance in the governmental funds statements.

Economic Factors and Next Year's Budgets and Rates
- Revenue forecasts for the 2019-21 Biennium reflect growth in State General Fund revenues, in part because of tax increases passed by the legislature.
- 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.
- Federal funds awarded under the Older Americans Act are expected to remain stable.

Since virtually all (99.8% in calendar year 2018) of LMTAAA's revenues are state or federal resources, LMTAAA council of government board members and management consider these and other 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 Executive Director, 2404 Heritage Ct SW, Suite A, Olympia, WA 98502.

Lewis Mason Thurston Area Agency on Aging
Governmental Funds Balance Sheet / Statement of Net Position
December 31, 2018

	Governmental Funds Balance Sheet	Adjustments	Government-wide Statement of Net Position
ASSETS			
Cash	$539,840		$539,840
Receivables	4,281,244		4,281,244
Prepaid Expense	63,733		63,733
Capital Assets (Net) (see Note 4)		$80,570	80,570
TOTAL ASSETS	4,884,817	80,570	4,965,387
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources – Pension		489,089	489,089
LIABILITIES AND FUND EQUITY			
Vouchers and Accounts Payable	$356,020		$356,020
Non-current liabilities:			
Due to Other Governments		$1,238,620	1,238,620
Compensated Absences		203,880	203,880
Net Pension Liability		1,704,121	1,704,121
TOTAL LIABILITIES	356,020	3,146,621	3,502,641
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources – Pension		832,269	832,269
FUND BALANCES / NET POSITION			
Fund Balances			
Non-spendable: Prepaid Expenses	$153,512	(153,512)	
Restricted For: TXIX Medicaid/Aging Network	1,659,932	(1,659,932)	
Medicaid Transform. Demonstration	61,012	(61,012)	
Working Capital Advance from DSHS	1,238,620	(1,238,620)	
Committed to: Alternative Leave	203,880	(203,880)	
Assigned To: Contingency Reserve	950,000	(950,000)	
Area Plan Program Support	122,306	(122,306)	
Website Development	20,000	(20,000)	
Unassigned	119,535	(119,535)	
Total Fund Balances	4,528,797	(4,528,797)	
Total Liabilities and Fund Balances	$4,884,817		
NET POSITION			
Net Investment in Capital Assets		80,570	80,570
Restricted		2,959,564	2,959,564
Unrestricted		(1,920,568)	(1,920,568)
Total Net Position		$1,119,566	$1,119,566

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, 2018

	General Fund	Adjustments	Government-wide Statement of Activities
Expenditures:			
Current:			
Salaries	$3,334,785	$21,022	$3,355,807
Benefits	1,376,401	(116,454)	1,259,947
Supplies	115,127		115,127
Rents and Leases	432,319		432,319
Other	383,065	90	383,155
Provider subcontracts	2,068,425		2,068,425
Depreciation/Amortization		46,978	46,978
Capital Outlays	32,809	(32,809)	
Total Expenditures	7,742,931	(81,173)	7,661,758
Revenues:			
Federal Program Revenue	4,296,439		4,296,439
State Program Revenue	4,052,871		4,052,871
Other Revenue	2,820		2,820
Investment Earnings	12,161		12,161
Total Revenue	8,364,291		8,364,291
Excess(deficiency) of Revenue over(under) Expenditures	621,360	81,173	702,533
Other Financing Sources – increase in working capital advance	101,442	(101,442)	0
Fund Balances/Net position			
Beginning of the Year	3,805,995	(3,388,962)	417,033
Prior Period Adjustment	0	0	0
End of the Year	$4,528,797	($3,409,231)	$1,119,566

The accompanying notes are an integral part of this statement.

LMTAAA Private Purpose Trust Funds
Statement of Fiduciary Net Position
December 31, 2018

ASSETS	
Special Assistance Fund Cash and Gift Cards	$ 41,288
Flexible Spending Account Cash	10,789
Total Assets	$52,077
NET POSITION	
Special Assistance Fund	$ 41,288
Flexible Spending Account	10,789
Total Held in Trust	$ 52,077

LMTAAA Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2018

	Private Purpose Trust Funds
ADDITIONS	
Special Assistance Fund Revenue	$ 16,907
Flexible Spending Account Revenue	35,007
Flexible Spending Account Net Increase in Pre-Funding	1,415
Total Additions	53,329
DEDUCTIONS	
Special Assistance Fund Disbursement	10,865
Flexible Spending Account Disbursement	34,711
Total Deductions	45,576
NET INCREASE IN NET POSITION	7,753
NET POSITION	
Net Position – Beginning of year	43,524
Prior Period Adjustment – Add SAF gift cards on hand, beginning of year	800
Net Position – End of year	$52,077

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. LMTAAA 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 available to be collected within 90 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 at the end of the fiscal year. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 and clients. The Flexible Spending Account (FSA) accounts for funds deducted from employee paychecks who choose to participate in the flexible spending or dependent care account arrangements and the payment of these claims. Because of the required implementation of GASB Statement 84, our treatment of these funds may change in the 2019 financial statements.

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 five 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; the Medicaid Transformation Demonstration (MTD or MAC/TSOA) budget, which is on a calendar year; it is contractual; it sets deliverables and milestones for payment, 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 are 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. Contract line items overages are generally allowed up to 10 percent of the total budget, but supplemental appropriations and other major changes must be approved by ALTSA. Until late 2018, up to 10% of Older American's Act (OAA) appropriations could be carried over into the subsequent calendar year without approval from ALTSA. Starting in 2018, the annually awarded OAA contracts run for 21 months; from January of the contract year through September of the subsequent year (for example, January 2018 through September 2019).

Title XIX and state funded program budgets are generally for a state fiscal year (July through June), typically allow the 10 percent line item overage without approval, and typically are not carried forward if unspent.

Indirect Awards

Older Americans Act – all people over the age of 60 are eligible to receive services provided by the Older Americans Act (OAA). 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

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

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.

Medicare Improvement for Patients and Providers Act (MIPPA) provides outreach and assistance for elderly and disabled individuals eligible for specified Medicare programs. It is budgeted on a federal fiscal year.

Senior Farmers Market Nutrition Program (SFMNP USDA) provides vouchers to seniors for use at farmers markets and basic food and nutrition education.

State Awards

Senior Citizen Services Act (SCSA) provides a variety of social services. Some of its funded 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 Farmers Market Nutrition Program (SFMNP State) provides vouchers to seniors for use at farmers markets and basic food and nutrition education.

Expanded Nutrition Home Delivered Meals is a program that began in state fiscal year 2018. It seeks to expand home delivered meals to new recipients not already receiving meals from OAA Title 3C2.

The Executive Director is authorized to approve most budgets and contracts, and approve the transfer of budgeted amounts between programs and/or funding sources of up to 15% of the total Area Plan Budget, or up to $150,000 of new contracts or programs which are not anticipated within the Area Plan. The Council of Governments approves the Area Plan, the annual Area Plan Budget and budgets/contracts that exceed the Executive Director's authority as delineated above.

E. Assets, Liabilities and Equities

1. Cash

It is the LMTAAA's policy to invest all temporary cash surpluses. At December 31, 2018, the Thurston County Treasurer was holding $449,280 in short-term residual investments of surplus cash. In addition, $89,779 of the TwinStar Credit Union Flexible Spending Account balance relates to prefunding of LMTAAA's 2019 Health Reimbursement Account. These bank amounts, combined with petty cash, is included on the balance sheet cash account in the General Fund. Earnings on the main bank account 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 3 – Deposits and Investments)

3. Receivables

Receivables primarily consist of amounts billed to DSHS for services rendered for which payment had not been received at December 31, 2018 but which was available within 90 days, amounts earned on investments, notes, and contracts at the end of the year, and amounts owed by non-profit organizations for services rendered through December 31, 2018.

4. Prepaid Expenses

LMTAAA accounts for prepaid expenses (prepaid rents and insurance) 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. Capital Assets (See Note 4 – 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 are 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. 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

6. Compensated Absences

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

7. 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.

Fund Balance Classification
Non spendable fund balance includes items that cannot be spent. This amount of $153,512 includes prepaid rents and insurance expenses as well as cash set aside in 2018 for 2019 payments of employee and dependent health reimbursement account medical expenses.

Restricted fund balance of $2,959,564 represents resources that are available to spend subject to externally enforceable legal restrictions on how they may be used. $1,659,932 is restricted for Title XIX Medicaid or Aging Network Programs, $61,012 is restricted for Medicaid Transformation Demonstration/MAC/TSOA, and $1,238,620 is for Working Capital (Cash) Advance from DSHS. 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, $203,880 is committed for compensated absence/alternative leave accrual potential payout.

Assigned fund balance reflects a government's intended use of resources. The LMTAAA COG assigned a total of $1,092,306. $950,000 is assigned as a contingency reserve, $20,000 is assigned for future website development, and the remaining $122,306 is assigned to support programs specified in the LMTAAA Area Plan document and budget. 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.

Unassigned fund balance of $119,535 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.

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. LMTAAA has deferred outflows/inflows related to the application of GASB 68 for pensions.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The LMTAAA is compliant with all finance-related legal or contractual provisions.

NOTE 3 - 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 TwinStar Credit Union. Voluntary payroll deductions for the Flexible Spending Account benefit program are deposited into an insured account, also at TwinStar Credit Union.

B. INVESTMENTS

In accordance with State law, the LMTAAA has entered into a formal agreement with the agency's *ex officio* treasurer, Thurston County, to have all its funds not required for immediate expenditure to be invested in the Thurston County Investment Pool (TCIP).

As of December 31, 2018, LMTAAA had the following Investments:

Investment Type	Amount Invested	Fair Value	Effective Duration
Thurston County Investment Pool	$449,280	$445,194	1.59 years

The TCIP is not rated by a nationally recognized statistical rating organization (NRSRO).

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 4 – CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION

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 Statement of Net Position. Capital assets activity for the year ended December 31, 2018 was as follows:

	Beg. Balances	Additions	Adjustments	Retirements	Ending Balances
Furniture, fixtures and equipment	312,237	32,809	0	(5,938)	339,108
Less accumulated depreciation	(225,242)	(40,203)	0	5,847	(259,598)

Furniture, fixtures, and equipment, Net	86,995	(7,394)	0	(91)	79,510
Leasehold Improvements	37,758	0	0	0	37,758
Less Accumulated Amortization	(29,923)	(6,775)	0	0	(36,698)
Leasehold Improvements, Net	7,835	(6,775)	0	0	1,060
NET TOTALS	$94,830	(14,169)	0	(91)	80,570

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 1,704,121
Pension assets	$ 0
Deferred outflows of resources	$ 489,088
Deferred inflows of resources	$ 832,267
Pension expense/expenditures	$ 300,202

State Sponsored Pension Plans

Substantially all LMTAAA’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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January – August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**
September – December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**

* For employees participating in JBM, the contribution rate was 12.26%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service is earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January – August 2018		

PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.70%**	**7.38%**
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

* For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

The LMTAAA's actual PERS plan contributions were $167,942 to PERS Plan 1 and $248,714 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%

Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability

The table below presents the LMTAAA's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the LMTAAA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 1,406,477	$ 1,144,466	$ 917,511
PERS 2/3	$ 2,559,876	$ 559,655	$(1,080,303)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the LMTAAA reported a total pension liability of $1,704,121 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$ 1,144,466
PERS 2/3	$ 559,655

At June 30, the LMTAAA's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.021390%	0.025626%	0.004236%
PERS 2/3	0.027514%	0.032778%	0.005264%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the LMTAAA recognized pension expense as follows:

	Pension Expense
PERS 1	$ 296,895
PERS 2/3	$ 3,307
TOTAL	$ 300,202

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the LMTAAA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$
Net difference between projected and actual investment earnings on pension plan investments	$	$ (45,480)
Changes of assumptions	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 84,227	$
TOTAL	$ 84,227	$ (45,480)
PERS 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**

Differences between expected and actual experience	$ 68,599	$ (97,985)
Net difference between projected and actual investment earnings on pension plan investments	$	$ (343,430)
Changes of assumptions	$ 6,547	$ (159,273)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 205,620	$ (186,098)
Contributions subsequent to the measurement date	$ 124,096	$
TOTAL	$ 404,861	$ (786,787)

Deferred outflows of resources related to pensions resulting from the LMTAAA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2019	$ 1,990
2020	$ (9,942)
2021	$ (29,834)
2022	$ (7,694)
2023	$
Thereafter	$
Total	$ (45,480)
Year ended December 31:	**PERS 2/3**
2019	$ (50,162)
2020	$ (118,265)
2021	$ (211,682)
2022	$ (79,314)
2023	$ (30,284)
Thereafter	$ (16,314)
Total	$ (506,021)

NOTE 6 - RISK MANAGEMENT

Lewis-Mason-Thurston AAA is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- $1,000,000 deductible on liability loss - the member is responsible for the first $5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $995,000 on a liability loss.
- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss.
- Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

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

Coverage consists of the following:

Type of Coverage	Amount of Coverage	Deductible
Comprehensive General Liability	$ 20,000,000	$ 5,000
Auto Liability	$ 20,000,000	$ 5,000
Public Official Errors & Omissions Liability	$ 20,000,000	$ 5,000
Terrorism Liability	$ 500,000	$ 5,000
Cyber Coverage	$ 2,000,000	20% co-pay
Employment Practices Liability	$ 20,000,000	20% co-pay
Crime / Faithful Performance of Duty	$ 250,000	$ 1,000
Identity Fraud Expense Reimbursement	$ 25,000	N/A

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

Property/Equipment Coverage	Amount of Coverage	Deductible
Olympia office	$ 357,719	$ 1,000
Chehalis office	$ 95,651	$ 1,000
Shelton office	$ 41,215	$ 1,000
Tumwater office	$ 88,134	$ 1,000

As discussed in Note 9 – Contingencies and Litigation, there was a large claim filed against the agency and its insurer in 2016. The claim was denied and has moved to litigation. See Note 9-B for further discussion.

There were no losses or settlements paid in 2018. There have not been settlements in excess of coverage during the past three years.

NOTE 7 - LONG-TERM DEBT/LIABILITIES

The LMTAAA does not issue debt instruments.

As discussed in Note 1 – E – 7 Fund Balances, DSHS has advanced working capital to the AAA in the amount of $1,238,620. This amount increased by $101,442 in 2018. This is shown as a restricted fund balance on the governmental fund statements and as a long-term liability in the government-wide statements.

As disclosed in Note 5 – Pension Plans, the agency has a long term pension liability.

As discussed in Note 1 – E – 6 Compensated Absences, the AAA has recorded a long term liability for leave and comp time in accordance with the bargaining agreement.

See the table below for abbreviated long term debt activity.

	Beginning Balances	Additions	Reductions	Ending Balances
Compensated Absences	**$ 182,858**	**$ 21,022**		**$ 203,880**

Working Capital Advance from DSHS	**$ 1,137,178**	**$ 101,442**		**$1,238,620**
Pension Liability	**$ 1,970,953**		**$266,832**	**$1,704,121**
TOTALS	**$ 3,290,989**	**$ 122,464**	**$266,832**	**$3,146,621**

NOTE 8 – LEASES

The LMTAAA leases its buildings and some equipment under operating leases. Total cost for such leases, including incidental or one time rental charges was $432,319 for the year ended December 31, 2018. Subsequent to 2018 year end, some of the formal leases expired, some were renewed and LMTAAA entered into other new leases. The future minimum annual lease payments list below incorporates the renewed and new operating leases. For the next 5 years, these lease payments are as follows:

CYE 12/31	Amount
2019	$416,312
2020	399,512
2021	380,516
2022	335,531
2023	212,479

NOTE 9 – CONTINGENCIES AND LITIGATIONS

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

A. Contingent Liabilities
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, would not materially affect the financial statements of the LMTAAA.

B. Litigation
On 12/6/2016, LMTAAA received a tort claim in the amount of $20,000,000, from the estate of a client who died in an apartment fire in April of 2014. The claim was denied by our insurance company. In February of 2017, LMTAAA was one of several defendants named in a complaint in Thurston County Superior Court, from the widow and the estate of the deceased client. In April of 2019 the Court dismissed the claims against LMTAAA in their entirety.

NOTE 10 – ACCOUNTING AND REPORTING CHANGES, AND OTHER DISCLOSURES

In 2018, the amount of activity for the Special Assistance Fund increased over previous years, especially in the donation and disbursement of gift cards. In past years, we only recorded cash transactions for this fund on the fiduciary financial statements. Starting in 2018, we began reporting donations and disbursements of gift cards as revenues and disbursements in the Special Assistance Fund as well. In addition, we showed a prior period adjustment on the face of the Statement of Changes in Fiduciary Net Position to record the $800 of gift cards on hand at the start of 2018.

In our 2017 Financial Statements, on the Statement of Governmental Activities, we erroneously omitted the $1,137,178 of Working Capital Advance in the Restricted category. We have restated 2017's amounts in this year's financial statements. Note that this has no effect on total Net Position reported, only on the designation of restricted or unrestricted. See the table below:

Statement of Government Activities Fund Balances / Net Position Line	Amount Reported in 2017	Restated in 2017 column in this year's financial statement
Investments in Capital Assets	$94,830	$94,830
Restricted	1,127,819	2,264,997
Unrestricted	(805,616)	(1,942,794)
Total Net Position	$417,033	$417,033

Starting in 2019, the LMTAAA is providing a Health Reimbursement Account (HRA) as part of our medical insurance coverage for our employees and covered dependents. Because these funds are available to those covered starting Jan. 1, 2019, we prefunded this account prior to the end of 2018. Because these are managed by the same third party administrator that handles the private trust fund flexible spending and dependent care programs, we deposited the prepayment in that bank account. We treated this as a prepayment for purposes of fund balance (nonspendable) designations, but because the funds originated from the LMTAAA we did not record them in the Private Trust Funds, but rather as a cash balance on the governmental and government wide statements.

LMTAAA has no significant commitments; does not have any issued debt, was not a lessor or lessee in capital leases, was not the recipient of an endowment; did not incur an obligation for termination of benefits; does not have any joint ventures; and had no significant subsequent events.

Lewis Mason Thurston AAA
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Difference
Budgetary Fund Balance, January 1			$ 3,805,995	
Medicaid – Federal/State	$4,768,598	$5,028,069	4,881,331	($146,738)
State aging/other programs	2,011,331	2,000,871	1,770,294	(230,577)
Federal – OAA	1,689,293	2,075,183	1,515,910	(559,273)
Federal – USDA	10,000	11,003	12,040	1,037
Other awards & misc.	87,032	98,526	184,716	86,190
Local Contributions	40,746	45,746	136,503	90,757
Amounts Available for Appropriation	8,607,000	9,259,398	8,500,794	(758,604)
Salaries	3,826,921	3,826,921	3,334,785	492,136
Benefits	1,556,267	1,556,267	1,376,401	179,866
Rentals and Leases	429,535	429,535	432,319	(2,784)
Other Direct Costs	451,503	451,503	531,001	(79,498)
Provider contracts	1,982,193	1,982,193	2,068,425	(86,232)
Total Charges to Appropriations	8,246,419	8,246,419	7,742,931	503,488
Budgetary Fund Balance, December 31			4,563,858	
Fund Balance Adjustments:				
Other Financing Sources – Increase in Working Capital Advance from DSHS			101,442	
Back out Local Contributions (Reserves) as Revenues			(136,503)	
Fund Balance, December 31			$4,528,797	

Note: Original Budget Revenues and Expenditures were approved by the Council of Governments and by DSHS ALTSA in the LMTAAA 2018 Area Plan Budget. Final Amended Budget revenue values are from signed contracts. Federal - OAA values match the calendar year. Federal – USDA budgets are based on federal fiscal years, and the remaining budgets are based on state fiscal years, with 50% from SFY2018 and 50% from SFY2019. Because LMTAAA expenditures are not legally limited by appropriations, the LMTAAA typically does not formally amend expenditure budgets.
This budget is prepared on the modified accrual basis of accounting.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Lewis Mason Thurston Area Agency on Aging
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30
Last 10 Fiscal Years*

		2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.025626%	0.021390%	0.026006%	0.026571%
Employer's proportionate share of the net pension liability	$	1,144,466	1,014,972	1,360,656	1,387,086
TOTAL	$	1,144,466	1,014,972	1,360,656	1,387,086
Covered payroll	$	3,177,152	2,942,847	3,076,906	2,807,692
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	36.02%	34.49%	44.22%	49.40%
Plan fiduciary net position as a percentage of the total pension liability	%	63.22%	61.24%	57.03%	59.10%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Lewis Mason Thurston Area Agency on Aging
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30
Last 10 Fiscal Years*

		2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.032778%	0.027514%	0.033079%	0.034244%
Employer's proportionate share of the net pension liability	$	559,655	955,980	1,665,502	1,223,558
TOTAL	$	559,655	955,980	1,665,502	1,223,558
Covered payroll	$	3,177,152	2,942,847	3,065,380	2,807,692
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	17.61%	32.48%	54.33%	43.58%
Plan fiduciary net position as a percentage of the total pension liability	%	95.77%	90.97%	85.82%	89.20%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Lewis Mason Thurston Area Agency on Aging
Schedule of Employer Contributions
PERS 1
As of December 31
Last 10 Fiscal Years*

		2018	2017	2016	2015
Statutorily or contractually required contributions	$	167,942	144,538	147,177	130,215
Contributions in relation to the statutorily or contractually required contributions	$	(167,942)	(144,538)	(147,177)	(130,215)
Contribution deficiency (excess)	$	0	0	0	0
Covered payroll	$	3,316,914	2,947,733	3,070,429	2,964,101
Contributions as a percentage of covered payroll	%	5.06%	4.90%	4.79%	4.39%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Lewis Mason Thurston Area Agency on Aging
Schedule of Employer Contributions
PERS 2/3
As of December 31
Last 10 Fiscal Years*

		2018	2017	2016	2015
Statutorily or contractually required contributions	$	248,714	202,695	190,569	167,253
Contributions in relation to the statutorily or contractually required contributions	$	(248,714)	(202,695)	(190,569)	(167,253)
Contribution deficiency (excess)	$	0	0	0	0
Covered payroll	$	3,316,914	2,947,733	3,058,903	2,964,101
Contributions as a percentage of covered payroll	%	7.50%	6.88%	6.23%	5.64%

LEWIS MASON THURSTON AREA AGENCY ON AGING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2018

Federal Agency (Pass-Through Agency)	Program Name	Federal CFDA No.	Other Award Number	Expenditures			Passed through to Subrecipients	Foot Note Ref.
				Pass-Through Awards	Direct Awards	Total		
Department of Agriculture Food and Nutrition Service (via Washington State Department of Social and Health Services)	Senior Farmers Market Nutrition Program	10.576	1769-93483	12,040	0	12,040	12,040	5
Department of Health and Human Services, Administration for Community Living (via Washington State Department of Social and Health Services)	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	1869-21046	6,890	0	6,890	0	
Department of Health and Human Services, Administration for Community Living (via Washington State Department of Social and Health Services)	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	1869-21046	520,244	0	520,244	203,065	
Department of Health and Human Services, Administration for Community Living (via Washington State Department of Social and Health Services)	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	1869-21046	685,570	0	685,570	603,390	
Department of Health and Human Services, Administration for Community Living (via Washington State Department of Social and Health Services)	Nutrition Services Incentive Program	93.053	1869-21046	134,422	0	134,422	134,422	3
			Total Aging Cluster:	**1,340,236**	**0**	**1,340,236**	**940,877**	
Department of Health and Human Services, Administration for Community Living (via Washington State Department of Social and Health Services)	National Family Caregiver Support, Title III, Part E	93.052	1869-21046	168,784	0	168,784	23,684	
Department of Health and Human Services, Administration for Community Living (via Washington State Department of Social and Health Services)	Medicare Enrollment Assistance Program	93.071	1769-20824	5,546	0	5,546	0	
Department of Health and Human Services Centers for Medicare and Medicaid Services (via Washington State Department of Social and Health Services)	Medical Assistance Program	93.778	1869-31853, 1769-93483	2,307,669	0	2,307,669	0	4

The notes are an integral part of this schedule.

Department of Health and Human Services Centers for Medicare and Medicaid Services (via Washington State Department of Social and Health Services)	Medical Assistance Program	93.778	1769-96755	67,718	0	67,718	0	
Department of Health and Human Services Centers for Medicare and Medicaid Services (via Washington State Department of Social and Health Services)	Medical Assistance Program	93.778	1869-32286, 1769-94538	7,980	0	7,980	0	
			Total Medicaid Cluster	**2,383,367**	**0**	**2,383,367**	**0**	
Department of Health and Human Services Centers for Medicare and Medicaid Services (via Washington State Department of Social and Health Services)	Money Follows the Person Rebalancing Demonstration	93.791	1869-31853, 1769-93483	14,402	0	14,402	0	4
Department of Health and Human Services Centers for Medicare and Medicaid Services (via Washington State Department of Social and Health Services)	Money Follows the Person Rebalancing Demonstration	93.791	1769-96755	210	0	210	0	
Department of Health and Human Services Centers for Medicare and Medicaid Services (via Washington State Department of Social and Health Services)	Money Follows the Person Rebalancing Demonstration	93.791	1869-32286, 1769-94538	48	0	48	0	
			Total CFDA 93.791	**14,660**	**0**	**14,660**	**0**	
			TOTAL FEDERAL AWARDS EXPENDED	**3,931,523**	**0**	**3,931,523**	**976,601**	1,2

The notes are an integral part of this schedule.

LEWIS MASON THURSTON AREA AGENCY ON AGING
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

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. Beginning in July 2015, revenues for Core Services Contract Management became based upon a unit rate.

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.

NOTE 6 – INDIRECT COST RATE:

LMT does not have an approved indirect cost rate and has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Lewis-Mason-Thurston
Area Agency on Aging

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Olympia, WA 98502

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CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Lewis Mason Thurston Area Agency on Aging
January 1, 2018 through December 31, 2018

This schedule presents the corrective action planned by the Agency for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2018-001	**Finding caption:** The Agency's internal controls over accounting and financial statement preparation were inadequate to ensure accurate and complete reporting of fiduciary funds.
Name, address, and telephone of Agency contact person: Dan Speigle, Fiscal Director 2404 Heritage Court S.W. Olympia WA, 98502 (360) 664-3162 ext. 117	
Corrective action the auditee plans to take in response to the finding: *As noted in the finding, during the preparation of the 2018 financial statements, the final review of the financial statements lacked sufficient detail to identify errors in the fiduciary financial statements, especially in regard to the Special Assistance Fund. In addition, we did not provide adequate evidence/tracking of the receipting and donation of gift card donations to the Special Assistance Fund.* *The initial accounting errors leading to the misstatement of the Special Assistance Fund (SAF) specifically and the fiduciary fund statements took place early in 2018, before we had the advantage of fully trained additional accounting staff. Errors were made in the initial recording of revenues and disbursements, and the financial statement preparation process did not detect and correct those initial errors. In addition, we did not initially realize the popularity of gift cards as a mode of SAF requests, donations and disbursements during the year, but only at year's end during financial preparation. Even before the audit, we had planned to revisit*	

and improve our SAF operational processes. This finding provides additional focus to include our accounting and reporting processes in these upcoming improvements. *The following are our planned corrective action steps.* 1. *We still need to take adequate time to prepare and review the financial statements; we have improved in this area, but still have some work to do. We will strive to more timely complete our other tasks, to give us additional time to establish and consistently use improved processes for Financial Statement preparation and review.* 2. *We believe the hiring of additional fiscal staff, reassigning existing staff, and focusing on training the fiscal team has already had positive impacts. We plan to continue to pursue appropriate training of our fiscal staff.* 3. *We are currently beginning a process to strengthen operational cooperation and controls over the entire SAF process, beginning with the upcoming holiday season large request/donation/disbursements cycle. LMTAAA management is committed to improving these processes.* 4. *Fiscal staff will track gift cards' requests, donations and disbursements more closely, with a more robust audit trail.* 5. *We will enhance our financial statement review process, perhaps implementing some analytic procedures.* 6. *We will consider the effect of GASB 84, Fiduciary Activities, on our fiduciary accounting and reporting. At least one staff member will attend training dealing with GASB 84.* *We believe these steps will improve our accounting and financial statements reporting in general, and specifically for our fiduciary activities.*
Anticipated date to complete the corrective action: April 30, 2020

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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