

Washington State Auditor's Office
Report on Financial Statements Audit

Timberlands Regional Support Network
Wahkiakum County

Audit Period
July 1, 2001 through June 30, 2003

Report No. 68142

Issue Date
March 25, 2005



Washington _____
State Auditor

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March 25, 2005

Board of Directors
Timberlands Regional Support Network
Cathlamet, Washington

Report on Financial Statements

Please find attached our report on the Timberlands Regional Support Network's financial statements.

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

In addition to this work, we look at other areas of our audit clients' operations for compliance with state laws and regulations. The results of that review will be included in our regular audit report, which will be issued separately.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

Timberlands Regional Support Network Wahkiakum County July 1, 2001 through June 30, 2003

Board of Directors
Timberlands Regional Support Network
Cathlamet, Washington

We have audited the general purpose financial statements of the Timberlands Regional Support Network, Wahkiakum County, Washington, as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated September 23, 2004. We conducted our audit in accordance with governmental auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Network's financial statements are free of material misstatements, we performed tests of the Network's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Network's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 23, 2004

Independent Auditor's Report on Financial Statements

Timberlands Regional Support Network Wahkiakum County July 1, 2001 through June 30, 2003

Board of Directors
Timberlands Regional Support Network
Cathlamet, Washington

We have audited the accompanying general purpose financial statements of the Timberlands Regional Support Network, Wahkiakum County, Washington, as of and for the years ended June 30, 2003 and 2002, as listed on page 5. These financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our financial audit in accordance with governmental auditing standards generally accepted in the United States of America, 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Timberlands Regional Support Network, as of June 30, 2003 and 2002, and the changes in financial position and cash flows, where applicable, thereof, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the Network's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of State and Local Financial Assistance are presented for purposes of additional analysis. These schedules are not a required part of the financial statements. Such supplemental information has been subjected to the auditing procedures applied in the audit of the

financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 23, 2004

General Purpose Financial Statements

Timberlands Regional Support Network Wahkiakum County July 1, 2001 through June 30, 2003

GENERAL PURPOSE FINANCIAL STATEMENTS

Balance Sheet – 2003
Balance Sheet – 2002
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – 2003
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SUPPLEMENTAL INFORMATION

Schedule of State and Local Financial Assistance – 2003
Schedule of State and Local Financial Assistance – 2002

TIMBERLANDS REGIONAL SUPPORT NETWORK
BALANCE SHEET
For the Period Ending June 30, 2003

	Governmental Fund Type				Account Groups	Memorandum Only
	General Fund	Risk Reserve	Operating Reserve	Capital Projects Fund	General Fixed Assets	
Assets						
Current Assets						
Cash & Equivalents	13,610					13,610
Investments	605,300	694,495		330,305		1,630,100
Accrued Interest	2,500					2,500
Current Receivables	21,634					21,634
Machinery & Equipment					48,641	48,641
TOTAL ASSETS	643,044	694,495	0	330,305	48,641	1,716,485
LIABILITIES AND FUND BALANCE						
Current Liabilities						
Accounts/Vouchers Payable	503,251					503,251
Advances - Working Capital	139,792					139,792
TOTAL LIABILITIES	643,043	0	0	0	0	643,043
Fund Balance						
Invest. General Fixed Assets					48,641	48,641
Risk Reserve		694,495				694,495
Capital Reserve for Housing			0	330,305		330,305
Operating Reserve						0
Unreserved Undesignated	0					0
TOTAL FUND BALANCE	0	694,495	0	330,305	48,641	1,073,441
						0
TOTAL LIABILITIES AND FUND BALANCE	643,043	694,495	0	330,305	48,641	1,716,484

TIMBERLANDS REGIONAL SUPPORT NETWORK
BALANCE SHEET
For the Period Ending June 30, 2002

	Governmental Fund Type				Account Groups	Memorandum Only Totals
	General Fund	Risk Reserve	Operating Reserve	Capital Projects Fund	General Fixed Assets	
Assets						
Current Assets						
Cash & Equivalents	14,530					14,530
Investments	801,003	428,812	315,275	591,210		2,136,300
Accrued Interest	4,400					4,400
Current Receivables	30,706					30,706
Machinery & Equipment					48,641	48,641
TOTAL ASSETS	850,639	428,812	315,275	591,210	48,641	2,234,576
LIABILITIES AND FUND BALANCE						
Current Liabilities						
Accounts/Vouchers Payable	695,840					695,840
Advances - Working Capital	139,792					139,792
TOTAL LIABILITIES	835,632	0	0	0	0	835,632
Fund Balance						
Invest. General Fixed Assets					48,641	48,641
Risk Reserve		428,812				428,812
Capital Reserve for Housing				591,210		591,210
Operating Reserve			315,275			315,275
Unreserved Undesignated	15,007					15,007
TOTAL FUND BALANCE	15,007	428,812	315,275	591,210	48,641	1,398,945
TOTAL LIABILITIES AND FUND BALANCE	850,639	428,812	315,275	591,210	48,641	2,234,577

**TIMBERLANDS REGIONAL SUPPORT NETWORK
CATHLAMET, WASHINGTON
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDING JUNE 30, 2003**

	General Fund	Risk Reserve	Operating Reserve	Capital Projects	Total Government Funds
<u>REVENUES</u>					
Intergovernmental Revenues					
Federal Grants - Indirect	155,296				155,296
State Grants	6,253,722				6,253,722
Total Intergovernmental Revenues	6,409,018	0	0	0	6,409,018
Transfers In					
Miscellaneous Revenues	89,766				89,766
TOTAL REVENUES	6,498,784	0	0	0	6,498,784
<u>EXPENDITURES</u>					
Regular Salaries	219,038				219,038
Personnel Benefits	51,536				51,536
Office, Operating Supplies	5,768				5,768
Professional Services	5,536,919				5,536,919
Communications	12,805				12,805
Travel	16,503				16,503
Advertising	1,069				1,069
Rentals & Leases	9,990				9,990
Insurance	4,588				4,588
Repairs & Maintenance	1,483				1,483
Miscellaneous	16,669				16,669
Machinery & Equipment	3,990				3,990
Capital Projects				403,841	403,841
TOTAL EXPENDITURES	5,880,358	0	0	403,841	6,284,199
Excess of Revenues Over(Under)	618,426	0	0	(403,841)	214,585
Other Financing Sources (Uses)					
Operating Transfers In	124,867	390,552		142,936	658,355
Operating Transfers Out	(218,213)	(124,867)	(315,275)		(658,355)
TOTAL OTHER FINANCING SO	(93,346)	265,685	(315,275)	142,936	0
Excess of Revenue and Other Sources (Over (Under Expenditures and Other Uses	525,080	265,685	(315,275)	(260,905)	214,585
FUND BALANCE					
Fund Balance, July 1, 2002	15,007	428,812	315,275	591,210	1,350,304
Prior Period Adjustment *	(540,087)				(540,087)
TOTAL FUND BALANCE, JUNE 30, 2003	0	694,497	0	330,305	1,024,802

* See Footnote Number 7

**TIMBERLANDS REGIONAL SUPPORT NETWORK
CATHLAMET, WASHINGTON
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDING JUNE 30, 2002**

	General Fund	Risk Reserve	Operating Reserve	Capital Projects	Total Government Funds
REVENUES					
Intergovernmental Revenues					
Federal Grants - Indirect	90,535				90,535
State Grants	5,340,363				5,340,363
Total Intergovernmental Revenues	5,430,898	0	0	0	5,430,898
Transfers In					
Miscellaneous Revenues	66,354				66,354
TOTAL REVENUES	5,497,252	0	0	0	5,497,252
EXPENDITURES					
Regular Salaries	205,491				205,491
Personnel Benefits	48,394				48,394
Office, Operating Supplies	4,480				4,480
Professional Services	5,131,960				5,131,960
Communications	9,890				9,890
Travel	15,320				15,320
Advertising	1,350				1,350
Rentals & Leases	10,080				10,080
Insurance	7,756				7,756
Repairs & Maintenance	2,655				2,655
Miscellaneous	33,553				33,553
Machinery & Equipment	4,616				4,616
Capital Projects				589,423	589,423
TOTAL EXPENDITURES	5,475,544	0	0	589,423	6,064,967
Excess of Revenues Over(Under)	21,708	0	0	(589,423)	(567,715)
Other Financing Sources (Uses)					
Operating Transfers In	0	50,000	0	490,000	540,000
Operating Transfers Out	(540,000)		0		
TOTAL OHER FINANCING SOU	(540,000)	50,000	0	490,000	0
Excess of Revenue and Other Sources (Over (Under Expenditures and Other Uses	(518,292)	50,000	0	(99,423)	(567,715)
FUND BALANCE					
Fund Balance, July 1, 2001	533,299	378,812	315,275	690,633	1,918,019
TOTAL FUND BALANCE, JUNE 30, 2002	15,007	428,812	315,275	591,210	1,350,304

TIMBERLANDS REGIONAL SUPPORT NETWORK
CATHLAMET, WASHINGTON
BUDGET VS. ACTUAL REVENUES AND EXPENDITURES
FOR THE FISCAL YEAR ENDING JUNE 30, 2003

	General Fund			Risk Reserve			Operating Reserve			Capital Projects		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
REVENUES												
Intergovernmental Revenues												
Federal Grants - Indirect	95,047	155,296	60,249			0			0			0
State Grants	5,640,079	6,253,722	613,643			0			0			0
Total Intergovernmental Revenues	5,735,126	6,409,018	673,892	0	0	0	0	0	0	0	0	0
Transfers In			0									
Miscellaneous Revenues	30,000	89,766	59,766			0			0			0
TOTAL REVENUES	5,765,126	6,498,784	733,658	0	0	0	0	0	0	0	0	0
EXPENDITURES												
Regular Salaries	215,419	219,038	(3,619)						0			0
Personnel Benefits	54,479	51,536	2,943						0			0
Office, Operating Supplies	5,000	5,768	(768)						0			0
Professional Services	5,610,291	5,536,919	73,372						0			0
Communications	9,700	12,805	(3,105)						0			0
Travel	17,500	16,503	997						0			0
Advertising	1,500	1,069	431						0			0
Rentals & Leases	10,120	9,990	130						0			0
Insurance	8,500	4,588	3,912						0			0
Repairs & Maintenance	3,500	1,483	2,017						0			0
Miscellaneous	88,500	16,669	71,831						0			0
Machinery & Equipment	5,000	3,990	1,010						0			0
Capital Projects		0							0			0
General Fund												
TOTAL EXPENDITURES	6,029,509	5,880,358	149,151	0	0	0	0	0	0	0	0	0
Excess of Revenues Over(Under)	(264,383)	618,426	584,507						0			0
Other Financing Sources (Uses)												
Operating Transfers In	264,383	0	264,383	172,339	390,552	(218,213)				142,936	142,936	0
Operating Transfers Out	(66,244)	(93,346)	27,102	(124,867)	(124,867)	(315,275)	(315,275)	(315,275)	(403,841)	(403,841)	(403,841)	0
TOTAL OHER FINANCING SOL	198,139	(93,346)	291,485	172,339	265,685	(218,213)	(315,275)	(315,275)	0	(260,905)	(260,905)	0
Excess of Revenue and Other Sources (Over (Under	(66,244)	525,080	875,992	172,339	265,685	(218,213)	(315,275)	(315,275)	0	(260,905)	(260,905)	0
Expenditures and Other Uses												
FUND BALANCE												
Fund Balance, July 1, 2002	66,244	15,007		378,812	428,812		315,275	315,275		693,433	591,210	
Prior Period Adjustment *		(540,087)	(540,087)									
TOTAL FUND BALANCE,												
JUNE 30, 2003	0	0		378,812	694,497		0	0		432,528	330,305	

* See Footnote No. 7

TIMBERLANDS REGIONAL SUPPORT NETWORK
CATHLAMET, WASHINGTON
BUDGET VS. ACTUAL REVENUES AND EXPENDITURES
FOR THE FISCAL YEAR ENDING JUNE 30, 2002

	General Fund			Risk Reserve			Operating Reserve			Capital Projects		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
REVENUES												
Intergovernmental Revenues												
Federal Grants - Indirect	90535	90535	0									
State Grants	5274816	5340363	65547									
Total Intergovernmental Revenues	5365350	5430898	65548	0	0	0	0	0	0	0	0	0
Transfers In			0									
Miscellaneous Revenues	67955	66354	(1601)									
TOTAL REVENUES	5433305	5497252	63947	0	0	0	0	0	0	0	0	0
EXPENDITURES												
Regular Salaries	205494	205491	3									
Personnel Benefits	48394	48394	1									
Office, Operating Supplies	4480	4480	0									
Professional Services	5134209	5131960	2249									
Communications	9889	9890	(1)									
Travel	15322	15320	2									
Advertising	1350	1350	1									
Rentals & Leases	10120	10080	40									
Insurance	7756	7756	0									
Repairs & Maintenance	2,655	2,655	0									
Miscellaneous	32,235	33,553	(1,318)									
Machinery & Equipment	4,700	4,616	84									
Capital Projects			0									
TOTAL EXPENDITURES	5,476,604	5,475,544	1,060	0	0	0	0	0	0	523,800	589,423	(65,623)
Excess of Revenues Over(Under) Expe	(43,299)	21,708			0			0		523,800	589,423	(65,623)
Other Financing Sources (Uses)												
Operating Transfers In												
Operating Transfers Out	(490,000)	(540,000)	50,000		50,000	(50,000)				490,000	490,000	0
TOTAL OHER FINANCING SOURCE	(490,000)	(540,000)	50,000	0	50,000	(50,000)	0	0	0	490,000	490,000	0
Excess of Revenue and Other Sources (Over (Under Expenditures and Other Uses	(533,299)	(518,292)	50,000	0	50,000	(50,000)	0	0	0	(33,800)	(99,423)	0
FUND BALANCE												
Fund Balance, July 1, 2001	533,299	533,299		378,812	378,812		315,275	315,275		693,433	690,633	
TOTAL FUND BALANCE, JUNE 30,	(0)	15,007		378,812	428,812		315,275	315,275		659,633	591,210	

TIMBERLANDS REGIONAL SUPPORT NETWORK NOTE TO FINANCIAL STATEMENTS JULY 1, 2001 TO JUNE 30, 2003

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State Senate Bill 5400, regionalizing mental health services in Washington State was passed and signed into law in May, 1989. This bill allowed geographical area to jointly provide mental health services to the combined populations. On June 30, 1995, an Interlocal Agreement was approved by Lewis, Pacific and Wahkiakum Counties creating the Timberlands Regional Support Network. In October of 1995, the State Legislature provided funding for the Timberlands Regional Support Network to begin operations on October 1, 1995. The TRSN first had financial activity in November of 1995.

A. Reporting Entity

Timberlands Regional Support Network is a governmental agency providing a variety of mental health services to a three county region. Accounting services are provided by Wahkiakum County with an interagency agreement. This allows access to the Local Governmental Accounting System for maintaining the accounting records. The Wahkiakum County Treasurer is also accessed for the handling of all cash transactions including investments.

B. Basis of Accounting

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 TRSN considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

C. Budgets and Budgetary Accounting

1. Scope of Budget

Annual appropriated budgets are adopted on the modified accrual basis of accounting. For government funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only. Revenue and expenditure ledgers are used to compare the budgeted amounts with the actual revenues and expenditures. Appropriations lapse at year-end.

2. Procedures for Adopting the Original Budget

On or before July 1 of each year, a budget is prepared showing for each object, actual expenditures for the prior year, current year estimated, and requested appropriations for the next fiscal year.

3. Amending the Budget

The Fiscal Manager is authorized to approve budget transfers between appropriation units (sub-object of expenditure). However the following circumstances require Board of Director approval:

Revisions that affect the appropriation units of salaries and wages, personnel benefits or capital outlay.

Revisions that create new salaried positions.

Revisions that establish new programs.

Revisions that delete ongoing programs.

Revisions that alter the total expenditures of the budget.

4. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Since appropriations lapse at year-end, remaining purchase orders are canceled and closed to fund balance at the end of the fiscal year.

D. Assets, Liabilities and Equities

1. Cash and Equivalents

At June 30, 2002, \$10,529.59 is deposited with the Wahkiakum County Treasurer. \$4,000.00 is deposited with Bank of America. At June 30, 2003, \$9,610.22 is deposited with the Wahkiakum County Treasurer. \$4,000.00 is deposited with Bank of America. The amounts are classified on the Balance Sheet as cash and equivalents represent surplus cash on deposit with the Wahkiakum County Treasurer and an imprest fund at Bank of America.

2. Receivables

Accrued interest receivable consists of amounts earned on investments at the end of the year. Receivables as of June 30, 2002 are \$30,706. Receivables as of June 30, 2003 are \$21,634.

3. Amounts Due to and from Other governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

4. Compensated Absences

The Timberlands RSN records all accumulated unused vacation leave. Vacation pay, which may be accumulated up to thirty (30) maximum days, is payable upon resignation, retirement or death. Sick leave may accumulate indefinitely. An employee leaving TRSN is entitled to be paid for unused vacation and, under certain conditions, a portion of unused sick leave.

E. Revenues, Expenditures and Expenses

Under the modified-accrual basis of accounting:

Expenditures are recorded when the related liability is incurred.

Grant revenues are considered measurable and available to the extent that expenditures have been made. Other intergovernmental revenues are considered measurable and available when earned.

Proceeds from the sale or loss of fixed assets are recognized as an other financing source. All other revenues are either not measurable or considered not available until collected.

Under the full accrual basis of accounting revenues and expenses are recognized in essentially the same manner as in commercial accounting.

NOTE 2-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provision. The Timberlands RSN considers expenditures that exceed their legally adopted appropriations by more than 5% to be material violations of the budget.

NOTE 3-DEPOSITS AND INVESTMENTS

The Timberlands RSN utilizes services provided by the Wahkiakum County Treasurer. The county maintains deposit relationships with several local commercial banks and savings and loan banks in addition to its primary bank.

All deposits not covered by Federal deposit insurance are covered by the Washington State Public Deposit Protection Commission (PDPC). The PDPC protection is in the nature of collateral and not insurance, pursuant to Governmental Accounting Standards Board of Statement No. 3. The TRSN cash and equivalents and investments are:

	June 30, 2002	June 30, 2003
Cash and equivalents-unrestricted\$	14,529.59	\$ 13,610.20
Investments - unrestricted	<u>\$ 2,136,300.00</u>	<u>\$ 1,630,100.00</u>
Total cash, equivalents & investments	\$ 2,150,829.59	\$ 1,643,710.22

Statutes authorize Wahkiakum County, acting as an agent of the TRSN, to invest in obligations of the U. S. Treasury and its instrumentalities, banker's acceptances issued in the secondary market, primary certificates of deposit issued by Washington State qualified public depositories as defined under Chapter 39.58 of the Revised Code of Washington and the State Treasurers investment pool. Investments are recorded at cost.

Investments held are disclosed in the following:

Investment in State Treasurer's investment pool	June 30, 2002	\$2,136,300.00
Investment in State Treasurer's investment pool	June 30, 2003	\$1,630,100.00

NOTE 4-INTERGOVERNMENTAL GRANTS AND ENTITLEMENTS

Schedules of Governmental Financial Assistance provides a listing of all federal, state and interlocal assistance programs in which Timberlands RSN participates; it summarizes grant transactions for Fiscal Year 2002 and 2003.

NOTE 5- PENSION PLANS

Substantially all Timberlands RSN full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems.

Public Employees' Retirement System (PERS)

The state legislature established PERS in 1947 under Chapter 41.40 RCW. PERS is a cost-sharing multiple-employer system. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals and Superior Courts (other than judges); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; noncertificated employees of school districts; and employees of local government. Approximately fifty (50) percent of PERS member are state employees.

PERS contains three (3) "plans." (As used in this context, the term "plans" refers to tiers within PERS. The actual plan is PERS.) Participants who joined the system by September 30, 1977, are Plan I members. Those joining thereafter are enrolled in Plan II. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan I and Plan II are vested after completion of five (5) years of eligible service.

Plan I members are eligible for retirement after thirty (30) years of service, or at the age of sixty (60) with five (5) years of service, or at the age of fifty-five (55) with twenty-five (25) years of service. The annual pension is two (2) percent of the final average salary per year of service, capped at sixty (60) percent.

Plan II members may retire at the age of sixty-five (65) with five (5) years of service, or at fifty-five (55) with twenty (20) years of service, with an allowance of two (2) percent per year of service of the final average salary. Plan II retirements prior to sixty-five (65) are actuarially reduced. There is no cap on years of service credit and cost-of-living allowance is granted, capped at three (3) percent annually.

Plan III members may retire with at least ten service credit years; or five service credit years, including 12 service credit months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. A reduced benefit is available as early as age 55.

During the 1989 Washington Legislative session, a cost of living adjustment (COLA) was granted to Plan I member, effective July 1, 1989. The COLA is initiated when the annuitants' real purchasing power of the monthly benefit is less than 60 percent of the benefit at age sixty-five (65). The COLA is three (3) percent capped by the consumer price index (CPI).

Each biennium the legislature establishes Plan I employer contribution rates and Plan II employer and employee contribution rates. Employee contribution rates for Plan I are established by legislative statute and do not vary from year to year. Employer rates for Plan I are not necessarily adequate to fully fund the system. The employer and employee contribution rates for Plan II are developed by the Office of State Actuary to fully fund the system. All employers are required to contribute at the level established by the legislature. The methods used to determine the contribution requirements were established under state statute.

NOTE 6-CONTINGENCIES AND LITIGATION

Timberlands RSN has recorded in its financial statement all material liabilities. In the opinion of management, the TRSN's insurance policy is adequate to pay all known or pending claims. Grant funds are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. TRSN management believes that such disallowances, if any, will be immaterial.

NOTE 7-PRIOR PERIOD ADJUSTMENTS

Due to a legislative decision during Fiscal Year 2003 TRSN returned to the Mental Health Division \$315,275 from their Operating Reserve and \$224,812 from the Unreserved Undesignated Fund Balance, for a total of \$540,087. These were revenues from a prior period.

Schedule 16

6,253,722

Schedule 16

5,340,363