NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lewis County 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

Lewis County was created on December 19, 1845, under the control of the Provisional Government of Oregon and operates under the laws of the state of Washington applicable to a Third Class County. Lewis County is a general purpose government and provides the following services according to the Constitution and laws of the State of Washington: public safety, road improvement, parks and recreation, judicial administration, health and social services, senior services, and general administrative services.

Lewis County is governed by an elected board of three county commissioners. These financial statements include the financial position and results of operations for all fund types and its component units. The blended component unit, although a legally separate entity is, in substance, part of the County's operations and so data from this unit is combined with data of the primary government. The blended component unit has a December 31 year-end.

Blended Component Unit

The Solid Waste Disposal District No. 1 of Lewis County is a quasi-municipal corporation, and an independent taxing authority and district, which is responsible for implementation of a comprehensive solid waste management plan for the County and other incorporated cities and towns within the county. In order to implement the plan and related goals, the County and the incorporated cities and towns within the county have agreed, through an interlocal agreement to the formation of the District and transfer of certain responsibilities to the District. Among obligations transferred to the District is the obligation to make funds available to the Centralia Landfill Closure Group for the closure, post-closure and remediation activities at the Centralia Landfill (which is operated by the City of Centralia). The District has the authority to provide for disposal of solid wastes within the boundaries of Lewis County. The District is governed by a three-member board, which consists of the three county commissioners. The District is reported as an enterprise fund.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. *Program revenues* include 1) charges to customers or applicants, who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function of segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded form the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and 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 government considers revenues to 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.

Property taxes, licenses, and interest associated within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The G*eneral Fund* (Current Expense) is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The R*oad Fund* accounts for the design, construction and maintenance of county roads.

The C*apital Facilities Plan Fund* is used to account for the ¼ of 1% real estate excise tax to be used to finance capital projects including debt service for the capital facilities plan.

The government reports the following major proprietary fund:

The S*olid Waste Disposal District Fund* is used to account for activity of Lewis County Solid Waste Disposal District No. 1 and operation of the new solid waste transfer station in Southwest Centralia.

Additionally, the government reports the following fund types:

Internal service funds account for operations that provide goods and services to other departments or funds of the county or to other government units on a cost-reimbursement basis. The County's internal service funds include the following intergovernmental services: equipment rental, risk management, pits and quarries, facilities, county insurance and information services.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

The *agency funds* are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing service and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Budgetary Information

1. Scope of Budget

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. Annual budgets are adopted by the County's legislative authority (board of county commissioners BOCC) at the fund level, except in the general fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for all funds lapse at year end.

The County does not employ encumbrance accounting.

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

2. Procedures for Adopting the Original Budget

The County's budget procedures are mandated by Washington State law in the Revised Code of Washington (RCW) title/chapter 36.40. The steps in the budget process are as follows:

a. Prior to the first Tuesday in September, the county commissioners' budget officer submits a proposed budget to the county commission. This budget is based on priorities established by the BOCC and estimates provided by county departments during the preceding months, and are balanced with revenue and fund balance estimates made by the departments, county commissioners' budget officer, and county treasurer.

b. The BOCC conducts public hearings on the proposed budget in October and December.

c. The BOCC makes adjustments to the proposed budget and adopts by resolution a final budget no later than five days following the first Monday in December.

d. Within 30 days of adoption, the final budget is normally available to the public.

3. Amending the Budget

The budget, as adopted, constitutes the legal authority for expenditures. Budgets are reported according to Generally Accepted Accounting Principles (GAAP). Any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the county commission.

When the government determines that it is in the best interest of the county to increase or decrease the appropriation for a particular fund or department, it may do so by resolution approved by a simple majority after holding one public hearing.

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

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

4. Excess of Expenditures Over Appropriations

During the current year there were no instances where there was an excess of expenditures over appropriations.

5. Deficit fund equity

During the current year Facilities Fund 507, an Internal Service Fund, incurred a deficit fund balance of $129,982. This deficit was a result of recognizing the long-term compensated absence balance of $155,380.

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The government pools cash resources of its various funds for the purpose of investing all temporary cash surpluses. At December 31, 2007, the treasurer was holding $14,769,773 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. Income on pooled investments is allocated pursuant to county resolution no. 85-95. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and summarized by fund type in the combined balance sheet.

The amounts reported as cash and equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2007 were approximately $702,764.

For purposes of the statement of cash flows, the proprietary fund types considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents, except for certificates of deposit and deposits with fiscal agents.

2. Investments

Investments for the government are reported at fair value. The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares (See Deposits and Investments Note No. 4).

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Property Taxes Note No. 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2007, $5,862 of special assessments receivable were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advance to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note 14 – Interfund Balances and Transfers.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. All inventories are valued at cost using the first-in/first-out (FIFO) method, which approximates the market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories in proprietary funds are valued at cost by the weighted average method. The average cost is recorded as an expense at the time items are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets and Liabilities

These accounts contain resources for self-insurance programs held in internal service funds. In the internal service funds, restricted cash and investments at year-end were:

Fund	Cash	Investments
County Insurance	-	748,121

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $5,000. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements for amounts greater than $50,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The costs for normal maintenance and repairs are not capitalized.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

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

Assets	Years
Autos, Computers, Office Equipment	3 - 7
Heavy Equipment	8 -20
Buildings, Land Improvements	40
Infrastructure	15 - 60

8. Compensated Absences

The government records all accumulated unused vacation and sick leave benefits. Vacation pay, which may accumulate up to 240 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 1,320 hours. Fifty percent of outstanding sick leave to a maximum of 360 hours is payable upon resignation, retirement or death.

9. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations or fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. The details of the difference between fund balance and net assets are as follows:

Fund balances - total governmental funds	$ 44,661,164
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	79,947,692
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.	1,400,395
Some receivable balances are not yet available and are not reported as revenue in the governmental funds.	5,298,604
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.	(28,929,683)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	23,488,992
Net assets of government activities.	$ 125,867,164

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. The details of the difference between the net changes in fund balances and net assets are as follows:

Net changes in fund balances - total governmental funds	$ 1,154,490
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.	5,977,282
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Loan/Bond Proceeds provide current financial resources to governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	880,303
Some revenues or expenditures reported in the statement of activities are not yet available or expensed and therefore are not reported as revenue or expenses in governmental funds.	(3,523,525)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.	997,292
(Rounding Adjustment)	(3)
Change in net assets of governmental activities.	$ 5,485,839

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. See Budgetary Information Note 1.D for more information related to budget compliance.

NOTE 4 – DEPOSITS AND INVESTMENTS

A. Deposits

The government's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. Investments

The county maintains an internal cash pool for idle cash that has not been invested for the benefit of specific funds. All interest earnings from this pool are credited to the General Fund. Cash balances of the individual funds constitute a portion of the Local Government Investment Pool and are reported on the balance sheet as Cash and Cash Equivalents or Investments depending on the maturity of the underlying investments. In addition, certain investments are held separately by several county funds and reported accordingly.

The fair value of investments based on quoted market prices at December 31, 2007 is as follows:

	Carrying Value/ Fair Value
U.S. Government Securities	43,057,948
Municipal Bonds	0
Total Investments Subject to Credit Risk Classification	43,057,948
Investments Not Subject to Credit Risk Classification	
State Investment Pool	64,710,725
CD's	2,259,573
Total Investments	110,028,246

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. At December 31, the unrealized gain on investments was immaterial; accordingly, no adjustment was recorded.

Interest Rate Risk

In accordance with its investment policy, the county manages its exposure to declines in fair values by limiting the maximum maturity of an individual investment in its investment portfolio to less than sixty months.

Credit Risk

Washington State statutes and county investment policy authorize the county to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers acceptances, primary certificates of deposit issued by qualified public depositories, the state treasurer's Local Government Investment Pool (LGIP), municipal bonds issued by Washington State or its local governments, and repurchase agreements collateralized by any previously authorized investments. Accordingly, credit risk if any is extremely limited.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Concentration of Risk
The county's investment policy does not allow for an investment in any one issuer that is in excess of twenty-five percent of the county's total investments.

Custodial Credit Risk - Deposits
In the case of deposits, this is the risk that in the event of a bank failure, the county's deposits may not be returned to it. The county does not currently have a deposit policy for custodial risk. As of December 31, 2007, $649,016 of the county's deposits was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department of agent, but not in the county's name.

Custodial Credit Risk - Investment
For an investment, this is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2007, none of the county's investments were exposed to custodial credit risk.

NOTE 5 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed as collected and those collections requiring remittance are distributed to other jurisdictions after the end of each month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property is established for next year's levy at 100% of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The county may levy up to $1.80 per $1,000 of assessed valuation for general governmental services, subject to the following two limitations stated in a and b:

a. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to an inflation limit factor percent per year, after adjustments for new construction. If the assessed valuation increases by more than the limit factor percent due to revaluation, the levy rate will be decreased. Additionally, upon a finding of 'substantial need' the legislative authority of taxing district other than the state may provide for the use of a limit factor of 106% or less.

b. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or $10 per $1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

The county is also authorized to levy $2.25 per $1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general governmental services. The county road levy for 2007 was $2.1293 per $1,000 on an assessed valuation of $4,032,416,346 or a total road tax of $8,586,424.

The county's total regular levy for 2007 was $1.5927 per $1,000 on an assessed valuation of $5,795,011,389 for a total regular tax of $9,229,779. The components of the regular levy are:

	Levy	Tax
General Fund	1.5564	$ 9,019,188
Veterans Relief	0.0113	65,716
Mental Health	0.0250	144,875
Totals	1.5927	$ 9,229,779

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 6 – CAPITAL ASSETS

A. Capital Assets

Capital assets activity for the year ended December 31, 2007 was as follows:

GOVERNMENTAL TYPE ACTIVITIES	Beginning Balance 01/01/2007	Increases	Decreases	Ending Balance 12/31/2007
Capital Assets, not being depreciated:				
Land	$ 2,480,569	$ 1,123,081	$ 500	$ 3,603,150
Construction in Progress *	26,282,951	8,113,494	23,169,376	11,227,068
Total Capital Assets, not being depreciated	28,763,520	9,236,575	23,169,876	14,830,218
Capital Assets being depreciated:				
Buildings	36,990,645	20,165,476	1,152,976	56,003,144
Improvements other than buildings	3,128,740	80,995	9,327	3,200,408
Machinery & Equipment	19,045,272	1,037,262	1,107,608	18,974,926
Infrastructure	69,076,082	418,893	370,751	69,124,224
Total Capital Assets, being depreciated	128,240,739	21,702,626	2,640,662	147,302,702
Less Accumulated Depreciation for:				
Buildings	20,057,079	1,365,463	1,152,976	20,269,566
Improvements other than buildings	1,658,550	172,294	9,327	1,821,517
Machinery & Equipment	12,925,807	1,429,087	1,016,488	13,338,406
Infrastructure	36,972,457	2,291,783	370,751	38,893,489
Total Accumulated Depreciation	71,613,893	5,258,627	2,549,542	74,322,978
Total Capital Assets being depreciated, net	56,626,846	16,443,999	91,120	72,979,724
Governmental Type Activities Capital Assets, net	$ 85,390,366	$ 25,680,574	$ 23,260,996	$ 87,809,942

*Construction in Process includes $8,516,987 of Public Works infrastructure projects included in the Six Year Transportation Improvement Plan, $896,524 in feasibility studies for possible construction projects, and $1,813,557 in construction projects currently in progress.

Depreciation Expense was charged to functions as follows:	
General Government Services	$ 390,878
Security of Person and Property	709,393
Physical Environment	126,301
Transportation	2,301,523
Economic Environment	22,184
Mental and Physical Health	2,424
Culture and Recreation	30,294
	$ 3,582,997
In addition, depreciation on capital assets held by by the County's internal service funds is charged to the various functions based upon their usage of the assets.	1,231,494
Total Governmental Activities Depreciation Expense	$ 4,814,491

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

BUSINESS TYPE ACTIVITIES	Beginning Balance 01/01/2007	Increases	Decreases	Ending Balance 12/31/2007
Capital Assets, not being depreciated:				
Land	$ 100,653	$ -	$ -	$ 100,653
Construction in Progress*	-	116,454	-	116,454
Total Capital Assets, not being depreciated	100,653	116,454	-	217,107
Capital Assets being depreciated:				
Buildings	1,304,051	-	-	1,304,051
Improvements other than buildings	1,930,764	138,225	138,225	1,930,764
Machinery & Equipment	355,631	50,828	-	406,459
Total Capital Assets, being depreciated	3,590,446	189,053	138,225	3,641,274
Less Accumulated Depreciation for:				
Buildings	744,638	58,725	-	803,363
Improvements other than buildings	385,970	99,350	-	485,320
Machinery & Equipment	135,896	24,380	-	160,276
Total Accumulated Depreciation	1,266,504	182,455	-	1,448,959
Total Capital Asses being depreciated, net	2,323,942	6,598	138,225	2,192,315
Business Type Activities Capital Assets, net	$ 2,424,595	$ 123,052	$ 138,225	$ 2,409,422

*Construction in Progress includes $116,454 for the South County Airport taxiway and apron expansion project.

Depreciation Expense was charged to functions as follows:

Solid Waste	$ 91,742
Airport	90,713
Total	$ 182,455

B. Impaired Capital Assets

Due to the flood that occurred in December 2007, Forty-eight buildings and two roads were impaired. Forty-six of the buildings impaired were part of the Southwest Washington Fairgrounds; the other buildings impaired were the Twin Cities Senior Center and Back Memorial Park Kitchen House. The total amount of building impairment incurred was $1,072,500. The two roads impaired were Wold Road and a small portion of Winlock-Vader Road. The total amount of road impairment incurred was $370,751. Insurance recoveries were not received until 2008.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 7 – PENSION PLANS

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer defined benefit public employee retirement plans and defined contribution retirement plans.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

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

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

Plan Description: PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not participating in national higher education retirement programs); judges of district and municipal courts; and employees of local governments.

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 retirements are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of two percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 received reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age of 65, or at age 55 with at least 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM). Current justices or judges in PERS Plan 1 and 2 may make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average financial compensation. Judges in PERS Plan 3 can elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who choose to participate in JBM will accrue service credit at the higher multiplier beginning with the date of their election, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who do not choose to participate will: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Justices and judges who are newly elected or appointed to judicial service and choose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, are required to participated in the JBM Program.

Justices and judges who are newly elected or appointed to judicial service will: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees & Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled To But Not	25,610
Active Plan Member Vested	105,215
Active Plan Members Nonvested	49,812
Total	**250,838**

Funding Policy: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statue at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit potion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007 were:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%**	6.13%**	6.13% ***
Employee	6.00% ****	4.15% ****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%

** The employer rate for state elected officials is 9.12%for Plan 1 and 6.13% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.5% for Plan 1 and 4.15% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum to based on rated selected by the PERS 3 member.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	8.63%	8.63%	8.63%
Employer-Local Govt.*	6.13%	6.13%	6.13%
Employee-State Agency*	9.76%	7.88%	75.00%
Employee-Local Govt.*	12.26%	10.38%	7.50%

* The employer rates include the employer administrative expense fee currently set
** Plan 3 defined benefit portion only.
*** Minimum rate.

Both county and the employees made the required contributions. The county's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	$ 147,309	$ 1,160,628	$ 82,265
2006	$ 79,874	$ 594,614	$ 37,696
2005	$ 45,457	$ 344,293	$ 27,834

B. Law Enforcement Offices' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description: LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan I members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2.
Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five yeas of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 members are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

There are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees & Beneficiaries Receiving Benefits	8,951
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	602
Active Plan Members Vested	12,711
Active Plan Member Nonvested	3,603
Total	**25,867**

Funding Policy: Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007 were:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%
Employee	0.00%	8.64%
State	n/a	3.45%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for ports and universities is 8.80%

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Both county and the employees made the required contributions. The county's required contributions for the years ended December 31, were:

	LEOFF Plan 1	LEOFF Plan 2
2007	$ 115	$ 136,941
2006	$ 260	$ 113,860
2005	$ 315	$ 86,555

C. Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description: PSERS was created by the 2004 legislature and became effective July 1, 2006. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A *covered employer* is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections; Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job: OR
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; OR
- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; OR
- have primary responsibility to supervise eligible members who meet the above criteria

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service and attains the age of 65. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

There are 69 participating employers in PSERS. Membership in PSERS consist of the following as of the latest actuarial valuation date for the plan of September 30, 2006:

Retirees & Beneficiaries Receiving Benefits	-
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	-
Active Plan Members Vested	-
Active Plan Member Nonvested	2,073
Total	**2,073**

Funding Policy: Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2007, were as follows:

	PSERS Plan 2
Employer*	8.55%
Employee	6.57%

*The employer rate includes an employer administrative expense fee of 0.16%.

Both Lewis County and the employees made the required contributions. The county's required contributions for the year ended December 31, were as follows:

	PSERS Plan 2
2007	$92,422
2006	$19,699

NOTE 8 - POSTRETIREMENT HEALTH CARE BENEFITS

In accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26), the county provides certain health care benefits for retired full-time, fully compensated, law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. Substantially all of the county's law enforcement officers who established membership in the LEOFF 1 retirement system may become eligible for those benefits when they reach normal retirement age. The Lewis County Sheriff's Department, in conjunction with the Lewis County Disability Board, reimburses retired LEOFF 1 law enforcement officers for reasonable medical charges as described in the LEOFF act. In 2007, 23 retirees received benefits under this act. As of December 31, 2007, there was 1 active officer with an age of 61 who will become eligible for benefits when he/she elects to retire as he/she has already reached eligible retirement age.

The cost of retiree health care benefits is recognized as an expenditure in the General Fund as claims are incurred. For 2007, those costs totaled $247,024, with an average cost per retiree of $10,740.

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

During 1993 the county began setting aside funds for future post retirement health care benefit payments for the county's LEOFF 1 law enforcement officers. The net assets available at December 31, 2007 were $5,633,126, shown as a restricted investment in the internal service fund, Risk Management; however, the current strategy does not constitute an advance-funded approach.

NOTE 9 - DEFERRED COMPENSATION PLAN

The county offers its employees deferred compensation plans created in accordance with Internal Revenue code Section 457. Two plans are available, one with State of Washington Department of Retirement Systems, Deferred Compensation Program and a second with Nationwide Retirement Solutions. The plans, available to all eligible employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Plan assets for both the State of Washington Deferred Compensation Program and Nationwide Retirement Solutions plans reside in trust held for exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since Lewis County is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer reported as an Agency Fund.

NOTE 10 - RISK MANAGEMENT

Liability: Lewis County is a member of the Washington Counties Risk Pool. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on August 18, 1988 when counties in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Thirty counties have belonged to the Pool for some years since its inception, and twenty eight counties are members presently.

The pool allows members to establish a plan of self-insurance, jointly purchase excess or reinsurance and provide related services. All pool joint self-insurance liability coverage's, including public officials' errors and omissions, are on an "occurrence" basis. The pool provides the following forms of group purchased insurance coverage for its members: "following form" excess liability, and property that includes vehicles, mobile equipment, EDP equipment, and equipment breakdown, etc.

Members make an annual contribution to fund the pool. The Pool acquires liability reinsurance from unrelated underwriters that are subject to a Pool per-occurrence self-insured retention (SIR) of $100,000. Based upon their individual deductible selections, members are responsible for the first $10,000 to $500,000 of each claim, while the Pool is responsible for the remaining self-insured retention up to $100,000. Insurance carriers cover all losses over $500,000 self-insured retention to the maximum limits of each policy.

Since the pool is a cooperative program, there is a joint liability among the participating members. This contingent liability is established if a program's assets are insufficient to cover the program's liabilities. Deficits of the Pool are financed through reassessments of the responsible members. The Pool's reassessments receivable balance as of December 31, 2007 is $260,770, none of which Lewis County remains responsible.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

Members contract to remain in the pool for a minimum of five years, and must give notice one year before terminating participation. The Interlocal Agreement is renewed automatically each year until terminated. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period it was a signatory to the Interlocal Agreement.

The pool is fully funded by its member participants and claims are filed by the same. It is governed by a board of directors, which is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting, and is responsible for conducting the business affairs of the pool.

Lewis County's SIR is in effect for general liability losses up to $25,000, $100,000, or $250,000, dependent on claim date, per occurrence, and those in excess of the retention are insured by the Washington Counties Risk Pool to $10,000,000. As of December 31, 2007, settlements, if any, have not exceeded insurance coverage.

The county maintains insurance against most normal hazards except for unemployment and worker's compensation, where it has elected to become partially self-insured.

Risk Management Fund: - The County established its own Risk Management fund in 1991, which is used to pay deductibles on general liability claims and unemployment claims. The county has elected to become self-insured for unemployment claims, and utilizes an independent claims management firm to review and process claims. Based on Washington Counties Risk Pool, unemployment claims management firm and county management estimates, the county's estimated liability for probable losses at December 31, 2007, which includes estimates for Incurred But Not Reported claims (IBNR) were as follows:

	2006	2007
General Liability Claims	$ 1,400,000	$ 1,400,000
Unemployment Claims	92,229	93,648
Total	**$ 1,492,229**	**$ 1,493,648**

In addition, the following shows changes in the balances of claims liabilities during the past year:

	Year Ended 12/31/2006	Year Ended 12/31/2007
Unpaid claims, beginning of fiscal year	$ 1,495,206	$ 1,492,229
Incurred claims & changes in estimate	215,249	292,740
Claim Payments	(218,226)	(291,321)
Unpaid claims, end of fiscal year	**$ 1,492,229**	**$ 1,493,648**

As of December 31, 2007, cash and investments were $9,143,256 in unrestricted and net assets were $7,945,055.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

County Insurance Fund: - The County has elected to become self-insured for worker's compensation and maintains the County Insurance Fund which is used to pay related claims costs. An independent claims management firm processes claims. Based on the claims management firm's estimates and Washington State Department of Labor & Industries data, the county's estimated liability for probable losses at December 31, 2007 was $295,894:

	Year Ended 12/31/2006	Year Ended 12/31/2007
Unpaid claims, beginning of fiscal year	$ 334,983	$ 334,983
Incurred claims & changes in estimate	179,139	118,154
Claim Payments	(179,139)	(118,154)
Unpaid claims, end of fiscal year	**$ 334,983**	**$ 334,983**

Additionally, the county has an assignment of account agreement with the Washington State Department of Labor and Industries for a single surviving spouse pension obligation. The pension obligation as calculated by the state is $164,797 plus a three-month deposit of $4,318. The county has a restricted certificate of deposit for $190,073 to secure the pension, and the state holds the $4,318 deposit. The county has met the SIR payable under the excess coverage for the specific claim.

The county is required by Washington State Department of Labor and Industries to set aside, for protection to the Workers' Compensation Fund, a minimum of $100,000 in cash reserves. Additionally, the county has purchased $1 million of excess coverage insurance for workers' compensation claims, with the county's aggregate SIR of $500,000 for the current two-year policy period. The policy has a lower SIR for individual claims, which varies with each policy year. As of December 31, 2007, cash and investments were $1,094,748 and $748,121 in unrestricted and restricted assets, respectively and net assets were $1,544,132.

Other Insurance: - The County has purchased coverage for property insurance (including computers), flood, auto and equipment physical damage, boiler, and liability for Packwood, Chehalis/Centralia, and South County Airports. For the past three fiscal years, there were no settlements that exceeded insurance coverage.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 11 - LONG-TERM DEBT

The County may issue general obligation and revenue bonds to finance the purchase of major capital items, the acquisition or construction of major capital facilities and other major items. The general obligation bonds have been issued for the general government and are being repaid from applicable resources. The County is also liable for notes that were entered into for various reasons stated below in the description of each note. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

A. Disclosures About Each Significant Debt Incurred

	Outstanding 12/31/2007
General Obligation Bonds	
$3,500,000 – Issued in August 2008, for the benefit of the Chehalis-Centralia Airport and their ongoing capital construction projects. Interest is paid at 4.32% with annual debt service payments of $316,206 through June 1, 2017. The Chehalis-Centralia Airport has a note payable due to the County for these payments.	$3,380,537
$7,100,000 - Issued May 25, 2005, for the purpose to defease, pay, redeem and retire the 1999 refunded bonds. Interest is paid at 3.00% to 6.50% with annual debt service payments of $506,638 to $523,943 through December 1, 2024.	$ 6,210,000
$12,270,000 - Issued February 26, 2003, for the purpose of constructing a new jail facility. Interest is paid at 3.00% to 4.75% with annual debt service payments of $794,378 to $838,000 through December 1, 2027.	$10,595,000
$13,795,000 - Issued October 27, 1999, for the purpose of refunding the outstanding 1992 GO bonds and financing part of Phase 1 of the County's Comprehensive Capital Facilities Plan. The plan includes remodeling of current facilities, property acquisition and construction of new County buildings. Interest is paid at 4.50% to 6.25% with annual debt service payments of $488,772 to $1,068,813 through December 1, 2024.	$5,350,000
Notes Payable	
Washington State, Public Works Trust Fund Loan - Dept. of Community Development - $389,125 - Issued April 14, 1994, for the purpose of financing extension of roads and utility services as an expansion of the Chehalis Industrial Park; whereby, the county acted as the lead agency in a cooperative project with the Port of Chehalis. All principal and interest payments made by the county are reimbursed 100% by the Port of Chehalis. Interest is paid at 1.00% on annual installments of $23,083 to $31,704 through July 1, 2014.	$194,563
Washington State Revolving Fund Loan - Dept. of Ecology - $406,261 - Issued July 1, 1994, for the purpose of paying for costs associated with the Wallace Road sewer project. The loan agreement provides a maximum allowable loan of $406,261, of which the County has received $322,808. Interest is paid at 4.50% on semi annual installments of $12,297 through July 1, 2014.	$137,275
Total Outstanding Debt	**$25,867,375**

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

B. Debt Service Requirements to Maturity

Annual debt service requirements to maturity for governmental general obligation bonds are as follows:

Year Ended	Principal	Interest
2008	987,004	1,148,567
2009	1,024,515	1,111,840
2010	1,067,354	1,074,350
2011	1,105,535	1,033,550
2012	1,149,076	989,824
2013-2017	7,902,055	3,582,118
2018-2022	6,800,000	2,050,716
2023-2027	5,500,000	1,238,475
TOTAL	**$ 25,535,539**	**$ 12,229,440**

Annual debt service requirements to maturity for other outstanding debt are as follows:

	Governmental Activities		Business-type Activities	
Year Ended	Principal	Interest	Principal	Interest
2008	27,795	1,830	18,623	5,970
2009	27,795	1,552	19,471	5,123
2010	27,795	1,274	20,357	4,237
2011	27,795	996	21,283	3,310
2012	27,795	718	22,252	2,342
2013-2017	55,589	602	35,290	1,600
TOTAL	**$ 194,564**	**$ 6,972**	**$ 137,276**	**$ 22,582**

C. Changes in Government-wide Long-Term Debt

The following is a summary of the County's Long-Term Debt transactions for the year ended December 31, 2007:

Activity:	Balance 12/31/2006	New Issues	Retirement	Balance 12/31/2007	Due Within One Year
Governmental:					
Compensated Absences	$ 3,231,933	$ 135,278	$ -	$ 3,782,864	$ 34,090
General Obligation Bonds	22,940,000	3,500,000	904,463	25,535,537	987,004
Notes Payable	377,444	-	45,607	331,837	46,418
TOTAL	**$ 26,549,377**	**$ 3,635,278**	**$ 950,070**	**$ 29,650,238**	**$ 1,067,512**
Business-type:					
Compensated Absences	$ 417,251		$ 1,598	$ 415,653	$ -
TOTAL	**$ 417,251**	**$ -**	**$ 1,598**	**$ 415,653**	**$ -**

D. Assets Available for Debt Service

At December 31, 2007, the county has $12,261 available in the debt service funds. The general fund and other county funds will transfer assets as required to service the general obligation bonded debt. Other debt, including compensated absences, is serviced by assets within the responsible fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

E. Legal Debt Margin

State law sets the county's limitation on external long-term debt as follows:

Purpose of Indebtedness	Remaining Capacity	
General Gov't (no vote required)	$	69,455,330
General Gov't (3/5 majoriy vote)	$	127,405,414

F. Current Refunding

There were no refundings during the current year.

G. Prior Years' Debt Defeasance

In prior years, the County defeased two bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government wide financial statements. As of December 31, 2007, the amount of defeased debt outstanding but removed from the Solid Waste Disposal District amounted to $5,280,000 and the Governmental Long Term Debt amounted to $8,050,000.

H. Arbitrage

Governments may incur a liability to the federal government for rebatable arbitrage if they earn more interest on the reinvested proceeds of tax-exempt debt than they incur on the underlying debt itself. The County has a review of potential rebatable arbitrage conducted every five years on each outstanding bond issue. Based on the results of these periodic reviews, there is no rebatable arbitrage on any of the County's outstanding debt issue.

NOTE 12 - JUDGMENTS AND CONTINGENCIES

The county 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 county will have to make payment. In the opinion of management, the county's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

The county participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representative. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

NOTE 13 - RESTRICTED NET ASSETS

The government-wide statement of net assets reports $748,121 of restricted net assets, of which $748,121 is restricted by enabling legislation.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

Activity between funds for goods or services occurs throughout the year. The following table depicts interfund receivable and payable balances as of December 31, 2007:

Fund Types	Due to Other Funds	Due From Other Funds
General Fund	$ 566,179	$ 208,266
Roads	256,492	102,573
Capital Facilities Fund	3,959	964
Nonmajor governmental funds	176,794	454,939
Business-type Funds		
SW Disposal District	292,404	1,123
Nonmajor business-type funds	114,217	292,404
Internal Service	60,337	410,113
TOTAL	**$ 1,470,382**	**$ 1,470,382**

B. Interfund Loans

Periodically, there is a business need to authorize loans between funds, usually for cash flow requirements for the smaller funds. The following table displays interfund loan activity during 2007:

Interfund Loans					
Borrowing Fund	**Lending Fund**	**Balance 01/01/07**	**New Loans**	**Payments Made**	**Balance 12/31/07**
South County Airport	General	$ 6,000	$ -	$ 1,500	$ 4,500
Senior Services	General	30,000	-	-	30,000
	TOTAL	**$ 36,000**	**$ -**	**$ 1,500**	**$ 34,500**

The loan to the South County Airport is not expected to be fully paid within the year.

C. Interfund Transfers

On an annual basis interfund transfers are used to move resources between funds for authorized purposes.
The following table displays interfund transfers during 2007:

Operating Transfers		
Fund Types	**IN**	**OUT**
General Fund	$ 168,529	$ 4,100,757
Roads	10,547	16,457
Capital Facilities Plan	88,718	1,461,216
Nonmajor governmental funds	5,149,771	220,828
Nonmajor business-type funds	381,693	-
TOTAL	**$ 5,799,258**	**$ 5,799,258**

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 15 - JOINT VENTURE

Lewis County was jointly participating with the city of Centralia and the city of Chehalis in the Chehalis-Centralia Airport. The joint venture is organized under RCW 14.08.200. On August 24, 2005 by joint resolution of the cities of Centralia and Chehalis and Lewis County, the action authorized the removal of the City of Centralia from the Chehalis-Centralia airport joint operating agreement and the two positions on the governing board held by representatives of the city of Centralia were eliminated.

Chehalis-Centralia Airport is jointly governed by an appointed six member board of which Lewis County is a member. Currently three airport board members are appointed by Lewis County and three members are appointed by the City of Chehalis. The appointment of the seventh member is alternated between the two entities. Lewis County has a one-half equity interest in the Chehalis-Centralia Airport. The Chehalis-Centralia Airport prepares its financial statements on a cash basis and had an equity position of $2,852,453 as of December 31, 2007.

Debt related to the Chehalis-Centralia Airport consists of a line of credit not to exceed $3,065,700 issued by the County in 2004 for capital construction. In 2005, that line of credit was increased to $3,500,000. In 2007, Lewis County issued a bond on behalf of the Chehalis-Centralia Airport in the amount of $3,500,000. The Chehalis-Centralia Airport will make the payments to Lewis County. The balance as of December 31, 2007 was $3,380,539.

Financial statements for the Chehalis-Centralia Airport can be obtained from its administrator at Airport, PO Box 1344, Chehalis, WA 98532.

NOTE 16 - CLOSURE AND POSTCLOSURE CARE COST

On August 28, 1990, the Centralia Landfill was listed on the Washington State Hazardous Sites List pursuant to Chapter 70, 105D RCW, the Model Toxics Control Act, and WAC 173-340-330, and on August 30, 1990, the Landfill was added to the Federal National Priorities List (NPL) pursuant to 42 U.S.C. Section 9605 of the Comprehensive Environment Response, Compensation, and Liability Act (CERCLA or Superfund). As a result of these listings, it was necessary for the Landfill to be remediated pursuant to the requirements of these laws.

On May 1, 1990 an Interlocal agreement was made between the various municipalities within Lewis County forming the Centralia Landfill Closure Group (CLCG) regarding the closure of the Centralia landfill. The municipalities, by the agreement, commit to take all action reasonably necessary to comply with the Environmental Laws and to share the costs of such compliance. Lewis County’s (unincorporated portion) potential liability represents 48.85% of the closure costs.

In addition to the municipalities, other PLPs (Potentially Liable Parties) and insurance carriers for the municipalities have been identified. The Washington State Department of Ecology (DOE) has evaluated information related to each PLP and found that credible evidence existed to notify two firms of their potential liability. Insurance carriers for the municipalities have been involved at various levels of the closure process, assisting in the duty to defend and to cover costs of the closure. As of December 1997, $3,430,481 had been recovered from insurance carriers.

During 1993, Lewis County concluded the process of forming a countywide Solid Waste Disposal District. Reportable financial activity of the district began in the spring of 1994, then, the district assumed the local government’s share of the liability for the Centralia Landfill closure. The maximum liability to the Lewis County

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Solid Waste Disposal District as well as all signatory municipalities to the landfill closure interlocal agreement is capped at $13 million.

Also in 1994, the Lewis County Solid Waste Disposal District #1 forwarded the sum of $8.7 million to the city of Centralia to fulfill the assumption of the local government's share of the liability for the Centralia Landfill closure. Therefore, the potential remaining obligation to the Disposal District as well as all signing municipalities is $4.3 million with Lewis County either alone or through its Disposal District, responsible for 48.85% of that $4.3 million ($2.1 million). However, current estimates indicate that there may be no future costs to Lewis County; accordingly, no additional liabilities for closure have been recorded in the Lewis County Solid Waste Disposal District fund.

Since the closure project is currently included on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" and "Superfund"), there is potential financial assistance available through the State of Washington Department of Ecology for a percentage (historically 75%) of the closure costs. As of December 1997, the CLCG had received a total of $7,909,813 from 1991 through 1997 in grant proceeds from the Department of Ecology. Current assessments indicate that future Ecology participation in closure activities will be in the area of 40% participation due to declining resources at the state level.

Interim action has been completed, pursuant to an initial consent decree, to provide a final cover over closed portions of the landfill. Completion of this project will reduce ultimate closure costs. The estimated total cost for the interim action was over $9.6 million, with financial assistance from the Washington State DOE. Lewis County's share is represented by 48.85% of the local cost. The sale of the bonds in 1994 partially offset those costs.

Within the landfill closure account managed by the CLCG, there have been adequate resources (factoring the $8.7 million forwarded to the CLCG by the Disposal District) to cover costs associated with remedial work undertaken thus far. The Solid Waste Disposal District transferred $243,960 during the year and at the end of 2007, approximately $215,481 remained in the City of Centralia Landfill Operating Trust Account, administered by the CLCG.

Significant decreases in the fund were the result of expenditures for post closure mitigation and the return of $8.7 million to Lewis County Solid Waste Disposal District #1. Increases to the landfill closure fund were the result of changes in known circumstances. The liability will continue to change as expenditures occur and as known circumstances occur due to the engineering determinations, inflation, deflation, technology or applicable laws or regulations and the completion of Remedial Investigation, Feasibility Study, and Closure Action Plan (RI/FS/CAP) negotiations with the Department of Ecology.

The CLCG, PLPs and insurance carriers have negotiated for the second consent decree with the Washington State DOE. A Remedial Investigation and Feasibility Study (RI/FS) has begun. Once completed, the results will be used to formulate the Closure Action Plan (CAP) which was completed in 2001. This plan will be approved by the DOE. It is possible that the landfill will be de-listed from CERCLA at the completion of the RI/FS because of pressure on the Environmental Protection Agency from the United States Congress, but that possibility is remote.

In April 1997, the Centralia Landfill Closure Group forwarded $8.7 million to the Lewis County Solid Waste Disposal District, as these funds were no longer needed for landfill closure costs. On May 6, 1997, this money, along with other funds set aside in the Solid Waste Disposal District fund as debt service reserves, were utilized to defease the $9,485,000 of the District's 1994 Revenue Bonds. The District acquired and deposited U.S. Government obligations irrevocably in escrow with First Trust National Association, Seattle, Washington, in amounts sufficient to pay the principal of and interest on the 1994 bonds through the final date of maturity,

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

November 1, 2015. The payment of the debt service on the 1994 Bonds will be made solely from the U.S. Government Obligations and no longer constitutes a lien and charge on the revenues of the District.

The total costs to Lewis County Solid Waste Disposal District in the future, and the period of time over which such costs will be incurred are reasonably predictable at this time.

NOTE 17 - OTHER DISCLOSURES

A. Changes to Funds

Reorganization of existing funds in 2007:
None

New funds established in 2007:
Debt Service Fund 210 was established for the new bond issue in 2007.

Existing funds dissolved in 2007:
None

B. Accounting and Reporting Changes

None

C. Subsequent Events

The County is unaware of the occurrence of any subsequent events that would be material to the County's financial statements for the year ending December 31, 2007.