Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Island County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010601

Issue Date
September 30, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 30, 2013

Board of Commissioners
Island County
Coupeville, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Island County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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January 1, 2012 through December 31, 2012

Federal Summary

Island County
January 1, 2012 through December 31, 2012

The results of our audit of Island County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

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

CFDA No.	Program Title
10.913	Farm and Ranch Lands Protection Program

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

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Island County
January 1, 2012 through December 31, 2012

Board of Commissioners
Island County
Coupeville, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Island County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 17, 2013. During the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 17, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Island County
January 1, 2012 through December 31, 2012

Board of Commissioners
Island County
Coupeville, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Island County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 17, 2013

Independent Auditor's Report on Financial Statements

Island County
January 1, 2012 through December 31, 2012

Board of Commissioners
Island County
Coupeville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Island County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Island County, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2012, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 19, budgetary comparison information on pages 63 through 64 and information on postemployment benefits other than pensions on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 17, 2013

Financial Section

Island County
January 1, 2012 through December 31, 2012

Discussion of Basic Financial Statements

The financial statements of Island County are prepared under the rules promulgated by the Government Accounting Standards Board (GASB). GASB is the primary source governing the preparation of government financial statements, with further guidance provided by the Budgeting, Accounting, and Reporting System Manual (BARS) issued by the Washington State Auditor.

There are three components to the County's basic financial statements: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Government-wide financial statements are intended to report the financial condition of the government entity as a whole. Fund statements are intended to report the sources of revenue for the major funds, how it was used, and how both the sources and uses compared to the budget appropriated for the government activities supported by the fund. In addition to the basic financial statements, this report also contains other supplementary information.

Government-wide Financial Statements
The government-wide statements present an overall picture of the County's financial position and the results of operations on two statements, the Statement of Net Position and the Statement of Activities.

The County's financial position at the end of the fiscal year is presented in the Statement of Net Position, a statement used to report all that a government owns (assets) and all that it owes (liabilities). A government's assets are financial resources such as cash, receivables, and investments. Capital assets are items such as land, buildings and improvements, intangible assets, and equipment, including infrastructure such as roads and drainage systems. These are also reported on the Statement of Net Position. "Net Position" reflects the value in dollars of the remainder when liabilities are subtracted from assets.

The Statement of Activities presents information on all revenues and expenses of the County and the change in net position. Expenses and related program revenues are reported by major function, providing the net cost for each function performed by the County. To assist in understanding the County's operations, expenses have been reported as governmental activities or business-type activities. Governmental activities performed by the County include public safety, health and human services, transportation, public works, and general government services. Business-type activities financed by user charges include solid waste disposal.

Fund Financial Statements
The Fund Financial Statements present financial information for the County's major funds. This information is reported on the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Only financial assets associated with government funds are reported on the balance sheet. Financial assets include cash and other assets that will convert to cash in the course of their ordinary lives. Receivables and investments are examples. Financial assets may also include pre-paid items such as rent or insurance. Funds do not include capital assets such as land or buildings, which are reported as expenditures in the year of acquisition. Liabilities are presented in the funds only to the extent that they are expected to affect a government's near-term financing needs.

The difference between the total assets and the total liabilities reported in a fund is known as "fund balance". Ideally, this amount represents the balance of financial resources available for appropriation at the end of the fiscal period being reported, yet, some of the financial resources may be nonspendable, restricted, or committed, and are not currently available for appropriation. Long-term receivables associated with loans to other funds may be financial assets, but not immediately available. Pre-paid expenses are also financial assets that are not immediately available, even though they must be included in the report. Additionally, restrictions involving third parties may make financial resources unavailable for appropriation. Purchase orders or contracts outstanding near the end of the fiscal period render those amounts unavailable for new spending. Fund balance may be divided into nonspendable, restricted, committed, assigned, or unassigned depending on external and internal constraints placed on the use of those resources. The classifications are defined in Note 1E.

Fund statements have a different focus from government-wide financial statements. Governmental funds, with their unique emphasis on inflows and outflows of spendable resources, provide information useful for making decisions in a budgetary context. Government funds report transactions that are significant from a financing perspective, such as capital outlays or debt service payments, which do not appear in the government-wide statement of activities. Fund statements do not report a number of items that appear in the government-wide statement of activities, such as depreciation or amortization of debt issuance costs.

The County maintains individual governmental funds to account for the functions of the County. Major funds are presented separately in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The major funds are the General Fund, the County Road Fund, and the Conservation Futures Fund. The other governmental funds are aggregated and reported in a single column on the statements.

The County maintains two different types of proprietary funds. Enterprise funds are used to report business-type activities as reported in the government-wide financial statements. Two enterprise funds are used by the County, one to account for solid waste management operations and one to account for a park facility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The County uses internal service funds to account for the maintenance and operation of equipment used by the public works department, acquisition and maintenance of County owned vehicles and the management of risk, including insurance, self-insurance, claims and safety. These funds predominately benefit the governmental activities in the government-wide statements. Seven percent of the risk management fund benefits the solid waste operation and has been included in the business-type activities.

Proprietary fund financial statements provide the same type of information as the government-wide statements only in more detail. The County has two proprietary funds; Solid Waste is considered to be a major fund and reported separately. The park facility fund is the other proprietary fund and is shown in the Other Funds column of the Proprietary Funds Statements. The three internal service funds are combined into a single column in the statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. These funds are not reflected in the government-wide financial statements because the resources are not available to support county programs.

Notes to the Financial Statements
The notes to the financial statements (Note 1C) provide details about the major funds and information reported in the financial statements. The notes also explain the County's accounting policies and provide detailed information regarding investments, long-term debt, and pension plans. The notes are essential to a complete understanding of the data provided in the government-wide and fund financial statements.

Other Information
In addition to the basic financial statements and accompanying notes, this report presents required supplementary information concerning the County.

Overall Analysis of Financial Position and Result of Operations

Over time, net position may serve as a useful indicator of the County's financial position. The overall financial position improved during the year. At December 31, 2012 assets exceeded liabilities by $154 million. The largest component of net position (72%) reflects the investment in capital assets, less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently the assets are not available for future spending. Although investments in capital assets are reported net of related debt, the resources needed to repay the debt must be provided from other sources. An additional portion of the net position (20%) represents resources that are subject to restrictions on how they may be used. The remaining balance of $12.8 million may be used to meet the County's ongoing obligations to citizens and creditors. In 2012, the County's total revenues exceeded expenses resulting in an increase in net position of $11.3 million. The County's net position from governmental activities increased by $11.2 million during the current year, and the net position from business-type activities increased $68 thousand.

On the following page is the Summary of Net Position and the Statement of Activities and Changes in Net Position prepared on a comparative basis for 2011 and 2012.

Summary Statement of Net Position (In Thousands)

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	$ 48,391	$ 44,355	$ 6,446	$ 6,133	$ 55,929	$ 50,488
Capital assets	114,996	108,657	4,861	5,114	119,857	113,771
Total Assets	163,387	153,012	11,307	11,247	175,786	164,259
Liabilities						
Other liabilities	3,295	3,484	347	363	4,733	3,847
Non-Current liabilities	14,054	14,702	3,013	3,006	17,067	17,708
Total Liabilities	17,349	18,186	3,360	3,369	21,800	21,555
Net Position						
Invested in Capital assets net of related debt	106,135	99,110	4,861	5,114	110,996	104,224
Restricted	30,144	27,872	-	-	30,144	27,872
Unrestricted	9,759	7,844	3,086	2,764	12,845	10,608
Total Net Position	**$ 146,038**	**$ 134,826**	**$ 7,947**	**$ 7,878**	**$ 153,985**	**$ 142,704**

Summary Statement of Activities & Changes in Net position (In Thousands)

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Revenues						
Charges for services	$ 7,804	$ 5,995	$ 5,768	$ 5,879	$ 13,572	$ 11,874
Operating grants and contributions	6,186	7,299	117	155	6,303	7,454
Capital grants & contributions	5,029	2,551			5,029	2,551
Total Program Revenues	19,019	15,845	5,885	6,034	24,904	21,879
General Revenues						
Property taxes	16,346	16,263			16,346	16,263
Sales/Use taxes	6,886	7,108			6,886	7,108
Other taxes	7,955	7,950			7,955	7,950
Penalties and interest	1,746	1,519	4	4	1,750	1,523
Other	1,733	1,318			1,733	1,318
Total General Revenues	34,666	34,158	4	4	34,670	34,162
Total Revenues	53,685	50,003	5,889	6,038	59,574	56,041
Expenses						
General government	8,383	7,481			8,383	7,481
Judicial	3,116	3,023			3,116	3,023
Public safety	10,169	9,897			10,169	9,897
Physical environment	1,360	969	5,472	5,389	7.832	6,358
Transportation	11,399	11,272			11,399	11,272
Health and human services	3,904	4,272			3,904	4,272
Economic environment	2,883	4,043			2,883	4,043
Culture and recreation	1,108	1,215	47	45	1,155	1,260
Interest on long-term debt	452	473			452	473
Total Expenses	42,774	42,645	5,519	5,434	48,293	48,079
Change in Net position	10,911	7,358	370	604	11,281	7,962
Transfers In (Out)	302	326	(302)	(326)		
Change in Net position	11,213	7,684	68	278	11,281	7,962
Net position, January 1	134,825	126,575	7,879	7,601	142,704	134,176
Prior Period Adjustment		566				566
Net position, December 31	**$ 146,038**	**$ 134,825**	**$ 7,947**	**$ 7,879**	**$ 153,985**	**$ 142,704**

Governmental Activities

Net position of governmental activities increased a total of $11.2 million. The amount invested in capital assets increased $7.0 million and the amount of unrestricted increased by $1.9 million. The value of restricted net position increased $2.3 million in 2012.

The increase in unrestricted net position of $1.9 million was primarily due to an increase of $1.8 million in the General Fund. The increase of $2.3 million in restricted net position is due to an increase in economic environment of $1 million resulting from a decrease in expenditures from the Rural County Sales Tax Fund for 2012, a $1.5 million increase in roads and streets primarily due to the deferral of four projects, and the costs of paving and oiling supplies cost less than budget, and a $0.5 million increase in physical environment due to establishing a Clean Water Utility which began assessing fees in 2012. The increases were partially offset by a decrease in restricted culture and recreation balance as Conservation Futures Fund expended $0.6 million from fund balance.

The revenues and expenses of the County are summarized by general activity, e.g., “Public Safety”. The funds for primary governmental activities provided total program revenues of $19.0 million and another $34.7 million was provided from taxes and other revenues not specific to a particular program. General revenues increased by $0.5 million primarily due to an increase in investment interest and real estate excise taxes.

In 2012, total expenditures had an increase of $0.1 million. There were increases in general governmental, public safety, physical environment and small increases in judicial and transportation. The increases were partially offset by decreases in economic environment of $1.2 million due to a decrease in expenditures on rural county projects.

Business-type Activities

The business-type activities increase in net position of $0.1 million was due to revenue exceeding expenditures. The increase in net position was approximately the same as 2011.

Fund Analysis

The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Unassigned fund balance may serve as a useful measure of net resources available for spending at the end of the year. As of the end of the year 2012, governmental funds reported combined ending fund balances of $39.9 million, an increase of $ 5.8 million in comparison with 2011. Fund balance classifications are explained in Note 1. Following is an explanation of fund balance changes:

- Nonspendable fund balance decreased by $180 thousand as the interfund loan was converted to an operating transfer from the General Fund to Public Health Pooling.

- Restricted fund balance increased $0.9 million. The Rural County Sales Tax Fund revenue exceeded awards by $1.1 million therefore increasing fund balance. The Clean Water Utility revenue exceeded expenditures by $0.6 million as the fund is accumulating fund balance for future capital projects. These increases were partially offset by $0.3 million in REET 2 and $0.4 million in Conservation Futures funds. Both funds project expenditures exceeded revenues using fund balance for these projects.

- Committed Fund Balance increased $2.4 million. The increase is primarily in the road fund which had committed revenue which was not spent on road projects during the year.

- Assigned Fund Balance increased $184 thousand for the year. The increase was primarily in the Road Fund as assigned revenues were not expended during the year.

- Unassigned Fund Balance increased $2.4 million primarily due to a $1.9 million increase in the General Fund, a $0.2 million increase in Public Health and a $0.5 million increase in Clean Water Utility.

The General Fund, County Road Fund, and Conservation Futures Fund are the County’s major governmental funds. The General Fund is the chief operating fund of the County. At the end of the year, unassigned fund balance was $7.4 million, which is an increase of $2.2 million for the year. The general fund expenditures remained constant with the prior year and revenues increased resulting in revenues exceeding expenditures and an increase in fund balance of $1.8 million. The Clean Water Utility Fund became a special revenue fund during 2012 and the negative fund balance of $0.3 million was moved to the other governmental funds which also increased the unassigned fund balance of the General Fund.

The County Road Fund increased fund balance by $2.6 million compared to a $332 thousand increase in 2011. The primary increase in fund balance was due to a decrease in capital project expenditures of $3.0 million which was partially offset by decreased grant revenue and a decrease of other expenditures.

The Conservation Futures Fund decreased fund balance $0.7 million as beginning fund balance was used for capital acquisitions.

Proprietary funds provide the same information found in the government-wide statements. The changes in proprietary funds have been addressed earlier in business-type activities.

Budgetary Comparisons

Budget variances are reported in the Required Supplementary Information (RSI) as the "Budgetary Comparison Schedule". During the year there was a $413 thousand increase in the original budget and the final amended budget of the General Fund. The County Road Fund had an increase of $50 thousand. The Conservation Futures Fund budget had an increase of $2.3 million during the year to fund property acquisitions.

The comparison of the final amended budget to actual reflects a variance of budgetary fund balances in the major funds. The budget only reflects the fund balances being used in the budget, whereas the actual column reflects the actual beginning fund balance. In the General Fund, the variance for total resources is an increase of $0.7 million and for outflows the variance is $1.1 million less than budget. During 2012 revenues were fairly stable; sales tax revenue was $0.3 million over budget. Other revenues for property tax interest, county assistance and liquor profits tax were about $0.1 million each over budget. The $1.1 million decrease in expenditures is due to decreases in general government services of $0.7 million, planning $0.2 million, and culture and recreation $0.2 million. The budget included a $0.1 increase in fund balance; the actual increase in fund balance was $1.8 million.

In the Road Fund total resources were under budget by $0.3 million and total expenditures were under budget by $2.9 million. Revenues were under budget primarily due to a decrease in intergovernmental grant revenues. Expenditures were under budget due to construction projects deferred until 2013.

The Conservation Futures Fund revenue was under budget by $0.4 million and expenditures were under budget by $0.5 million as revenue for grant funding and acquisition of the property was not done during 2012.

Capital Assets and Long-Term Debt Activity

A schedule summarizing capital asset activity is provided in Note 6 and the County's capitalization policies are included in Note 1 E 8. Island County's total investment in capital assets including construction in progress is $120 million, net of accumulated depreciation and amortization. The investment in capital assets includes land, buildings, improvements, machinery and equipment, intangible assets, park facilities, roads, drainage and other infrastructure. Governmental activities capital assets increased $6.3 million for the year mainly due to land acquisitions for conservation futures funds of $2.2 million, property donated to the county valued at $2.9 million, and the infrastructure construction projects in 2012 of $2.3 million. The increase is offset by decreases in buildings and intangible assets due to depreciation.

At the end of the current year the County had total bonded debt outstanding of $9.0 million. The debt is backed by the full faith and credit of the government and represents general obligation bonds. Other long-term debt consists of state loan programs, compensated absences, liability for landfill closures and post closures, OPEB/pension related liabilities, and capital leases. Total long-term debt of the county is $17.3 million. State statutes limit debt to 2.5% of assessed taxable property value. The current debt limit for the county is $307 million, which is significantly in excess of the County's outstanding obligations. Additional information on long-term debt can be found in Note 10.

Other Significant Matters

Unassigned fund balance in the General Fund was $7.4 million at the end of 2012. The General fund has beginning fund balance of $254 thousand appropriated in the 2013 budget.

The County General Fund used $3.1 million in fund balance during 2008, $1.2 million for 2009, and $23 thousand for 2010. The county continued to reduce staff and operating expenditures during 2008, 2009, 2010, and 2011 by a total of $4.2 million. For 2011 the county increased $1.4 million of fund balance and for 2012 the increase was $1.8 million. The 2013 budget is anticipated to have revenues equal to expenditures.

Washington State 2012 paints a different picture than that of the previous 5 years of continuous economic decline. Washington has enjoyed economic stability in several sectors including transportation manufacturing with commercial aviation and commercial trucking providing increases in employment, sales and exports. Construction turned up in 2012 after eight consecutive years of contraction; increasing by 3.2 percent nationally and more in certain locations of Washington – this industry contributed to real GDP growth in 43 other states and the District of Columbia. Large metropolitan areas experienced growth in jobs, housing and commercial sales of real estate; King County, in particular, experienced significant growth with 2012 real estate investments of Amazon and others. Employment opportunities offered by Microsoft, Amazon and Boeing led the way in reducing unemployment numbers by a significant margin.

Island County has experienced some stabilization of the local economy without the continued declines in certain industries of previous years. Modest increases in new home construction and light manufacturing, slight increases in retail sales, service and goods have provided needed employment opportunities. The entrepreneurial spirit has brought a few businesses to the forefront that might have otherwise waited until the economy was stronger. The county continues to realize only modest income on investment interest; slight gains in local sales tax are offset by the increased expense of high fuel prices. The local real estate and housing market, both in sales of existing homes and new construction starts, remain at a 20 year low, affecting jobs, sales tax and real estate excise tax. Although real estate interest rates remain at historic lows, qualifying requirements were ramped up by lenders after the predatory lending and foreclosure onslaught of the previous 4-5 years. For those able to qualify, 2012 was the ideal time to buy a home or land. Jobs in construction, local government, and private sector are only beginning to track above the post-2007 lows. The unemployment rate in Island County was 7.9% in December 2012 (not seasonally adjusted).

Government, comprised of Naval Air Station Whidbey Island (NASWI), Island County government, school districts and cities/towns are the largest employers in Island County. For federal and local government - dramatically impacted by the economic downturn - recovery has been slow and painful. Although NASWI remained a constant source of job retention with continued job growth due to new and existing construction contracts, in-coming aviation squadrons, there were still some reductions in staffing of some squadrons and local government agencies did not fare well.

NAS Whidbey Island (NASWI) is a key component of Island County and Northwest Washington's economy. The Navy base is the largest employer in the region and has an estimated $500 million dollar impact to the economy. NASWI is 23% of the total employment for Island County WA. The NASWI population declined in 2011 with the loss of some P-3 and P-8 operators and support personnel, the impact equivalent increased the unemployment rate by 3.67%. Based upon median income as a baseline, each Island County resident lost approximately $835 per year due to NASWI changes in staffing and their payroll. Revised 2012 data is unavailable at this time. We include 2011 economic impact of personnel reduction for historical perspective of NASWI value to state and local economy.

Island County continues to enjoy the desirable lifestyle of a small rural community within easy reach of the major cities to the north and south. The economic downturn increased the number of residents seeking employment off the islands as more employers in the county reduced staff and trimmed budgets. The economic decline reached Island County later than the East Coast and Midwest; the local economy is rebounding at a slower rate as expected. The local economy appeared to stabilize in the last quarter of 2011 and experienced modest, diverse increases during 2012. However, higher gasoline prices in 2012 and potential decline in local gasoline tax revenue could have an impact on the budget.

Island County remains a preferred location for retirees seeking a more relaxed lifestyle. Affordable property in a moderate climate and low crime rate make Island County a highly desirable place to live, work, retire and play. The county - comprised entirely of islands - has two major islands that are well populated and several smaller ones that are uninhabited. The populated islands – Whidbey and Camano - have vehicle access to the mainland, the interstate highway via bridge and/or ferry. The two populated islands have well maintained county roads, state highways and the incorporated areas have full city amenities. The desirability of living in the islands has led many to locate their business or small company to Whidbey or Camano, where they can utilize numerous electronic options available to conduct business worldwide.

The real estate and housing market stabilized in 2012 with the number of foreclosures declining from the previous four years. A modest increase in sales and sale prices resulted in an uptick in Island County real estate excise taxes and fees in 2012. This trend appears to be gaining strength due to stable property prices, low interest rates, and desirability of location and is expected to continue into 2013. Revenue from new custom construction remains dramatically lower than pre-2007 timeframe. Available inventory surpassed sales significantly from 2008 through 2011 – increasing the absorption rate. With inventory growth slowing and sales prices increasing, the income derived from this revenue source is expected to offer growth in 2013. Property valuations for 2012 reflected a slight increase in some property types, as evidenced by the 2012 property tax evaluation statements.

The year 2012 appeared to be a turning point for the local economy: first quarter remained stable, modest increases in economy, construction, and employment were good indicators the turn-around was underway by mid year. The year ended with the lowest unemployment rate in 5 years - less than 8%; job growth at most major employers in the state – especially Boeing, Microsoft and Amazon - promises more jobs in 2013. Investment income gains, though modest, were realized in 2012.

ISLAND COUNTY, WASHINGTON
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CASH AND CASH EQUIVALENTS	$ 3,929,286	$ 749,623	$ 4,678,909
TAXES RECEIVABLE	1,010,861		1,010,861
OTHER RECEIVABLES, NET	1,388,902	376,325	1,765,227
INTERNAL BALANCES	(95,312)	95,312	
DUE FROM OTHER GOVERNMENTS	4,412,551		4,412,551
INVENTORIES	402,670		402,670
PREPAID ITEMS	396,698		396,698
DEFERRED CHARGES	576,897		576,897
NOTE RECEIVABLE - CURRENT PORTION	190,741		190,741
RESTRICTED ASSETS - CASH SURPLUS INVESTED		2,856,420	2,856,420
INVESTMENTS OF SURPLUS CASH AT FAIR VALUE	35,448,098	2,368,561	37,816,659
NOTE RECEIVABLE - NONCURRENT PORTION	729,610		729,610
CAPITAL ASSETS - Net of Accumulated Depreciation			
LAND	20,492,886	1,067,537	21,560,423
BUILDINGS AND OTHER IMPROVEMENTS	23,289,633	3,232,416	26,522,049
MACHINERY AND EQUIPMENT	5,167,669	522,725	5,690,394
INFRASTRUCTURE	57,494,379		57,494,379
INTANGIBLES	5,690,772	38,413	5,729,185
CONSTRUCTION IN PROGRESS	2,860,516		2,860,516
TOTAL CAPITAL ASSETS	114,995,855	4,861,091	119,856,946
TOTAL ASSETS	163,386,857	11,307,332	174,694,189
LIABILITIES			
ACCOUNTS PAYABLE	993,855	249,214	1,243,069
OTHER CURRENT LIABILITIES	1,834,624	64,798	1,899,422
DUE TO OTHER GOVERNMENTS	61,304	13,375	74,679
ACCRUED LIABILITIES - CURRENT PORTION	404,708	19,680	424,388
NON-CURRENT LIABILITIES			
PAYABLE FROM RESTRICTED ASSETS		2,856,420	2,856,420
ACCRUED LIABILITIES	3,909,515	156,891	4,066,406
DUE WITHIN ONE YEAR	1,033,719		1,033,719
BOND PREMIUM	191,993		191,993
DUE IN MORE THAN ONE YEAR	8,919,005		8,919,005
TOTAL LIABILITIES	17,348,723	3,360,378	20,709,101
NET POSITION			
NET INVESTMENT IN CAPITAL ASSETS	106,135,362	4,861,091	110,996,453
RESTRICTED FOR:			
GENERAL GOVERNMENT	835,643		835,643
PUBLIC SAFETY	245,989		245,989
CULTURE AND RECREATION	821,501		821,501
ECONOMIC ENVIRONMENT	4,648,729		4,648,729
MENTAL AND PHYSICAL HEALTH	2,362,446		2,362,446
ROAD AND STREETS	14,994,249		14,994,249
CAPITAL PROJECTS	5,512,939		5,512,939
OTHER PURPOSES	4,683		4,683
PHYSICAL ENVIRONMENT	717,265		717,265
UNRESTRICTED	9,759,328	3,085,863	12,845,191
TOTAL NET POSITION	$ 146,038,134	$ 7,946,954	$ 153,985,088

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

FUNCTIONS OF THE PRIMARY GOVERNMENT	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES							
GENERAL GOVERNMENT	$ 8,383,263	$ 1,206,854	$ 1,421,879	$ 54,755	$ (5,699,775)	$	$ (5,699,775)
JUDICIAL	3,116,320	1,056,018	664,879		(1,395,423)		(1,395,423)
PUBLIC SAFETY	10,168,878	162,656	842,530		(9,163,692)		(9,163,692)
PHYSICAL ENVIRONMENT	1,359,620	1,499,874	406,614		546,868		546,868
TRANSPORTATION	11,398,767	697,102	441,585	853,426	(9,406,654)		(9,406,654)
HEALTH AND HUMAN SERVICES	3,903,816	707,047	1,991,920		(1,204,849)		(1,204,849)
ECONOMIC ENVIRONMENT	2,883,262	1,818,466	290,824		(773,972)		(773,972)
CULTURE & RECREATION	1,108,264	656,126	125,307	4,120,328	3,793,497		3,793,497
INTEREST ON LONG-TERM DEBT	451,696				(451,696)		(451,696)
TOTAL GOVERNMENTAL ACTIVITIES	42,773,886	7,804,143	6,185,538	5,028,509	(23,755,696)		(23,755,696)
BUSINESS-TYPE ACTIVITIES							
SOLID WASTE	5,472,085	5,749,582	116,846			394,343	394,343
PARK FACILITY MANAGEMENT	46,949	18,243				(28,706)	(28,706)
TOTAL BUSINESS-TYPE ACTIVITIES	5,519,034	5,767,825	116,846			365,637	365,637
TOTAL PRIMARY GOVERNMENT	$ 48,292,920	$ 13,571,968	$ 6,302,384	$ 5,028,509	$ (23,755,696)	$ 365,637	$ (23,390,059)

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
General Revenues			
Taxes			
Property Taxes levied for General purpose	7,183,785		7,183,785
Property Taxes levied for Roads	8,026,716		8,026,716
Property Taxes levied for Other Specific Purpose	1,135,864		1,135,864
Sales and Use Tax	6,885,653		6,885,653
MVFT	6,420,327		6,420,327
Excise Taxes	1,534,093		1,534,093
Miscellaneous	305,185		305,185
Penalties and Interest	1,746,047	4,607	1,750,654
Cable,E-911	1,333,757		1,333,757
Gain (Loss) on sale of Capital Assets	94,423	535	94,958
Transfers	302,487	(302,487)	
Total General Revenues and Transfers	34,968,337	(297,345)	34,670,992
Change in Net Position	11,212,641	68,292	11,280,933
Net Position - Beginning	134,825,493	7,878,662	142,704,155
Net Position Ending	$ 146,038,134	$ 7,946,954	$ 153,985,088

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

ISLAND COUNTY, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2012

	GENERAL FUND	COUNTY ROAD FUND	CONSERVATION FUTURES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
CASH AND CASH EQUIVALENTS	$ 949,854	$ 1,197,720	$ 100,991	$ 1,463,776	$ 3,712,341
TAXES RECEIVABLE	411,116	455,718	37,469	106,558	1,010,861
OTHER RECEIVABLES, NET	810,663	14,798		347,965	1,173,426
DUE FROM OTHER FUNDS	40,842	29,934		75,913	146,689
INTERFUND LOANS RECEIVABLE				616,000	616,000
DUE FROM OTHER GOVERNMENTS	1,338,059	1,739,064	500,971	1,380,312	4,958,406
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE	8,610,764	10,946,453	923,197	12,990,443	33,470,857
TOTAL ASSETS	$ 12,161,298	$ 14,383,687	$ 1,562,628	$ 16,980,967	$ 45,088,580
LIABILITIES AND FUND BALANCES					
LIABILITIES					
ACCOUNTS PAYABLE	$ 301,397	$ 407,395	$ 47,004	$ 490,383	$ 1,246,179
DUE TO OTHER FUNDS	102,952	62,487		88,140	253,579
INTERFUND LOANS PAYABLE			616,000		616,000
DUE TO OTHER GOVERNMENTS	91	1		61,208	61,300
ACCRUED LIABILITIES	609,918	181,931	267	290,056	1,082,172
DEFERRED REVENUE	550,110	540,134	65,779	767,631	1,923,654
TOTAL LIABILITIES	1,564,468	1,191,948	729,050	1,697,418	5,182,884
FUND BALANCES					
NONSPENDABLE	-				-
RESTRICTED	249,113			14,234,994	14,484,107
COMMITTED	149,060	12,810,914	355,005	151,797	13,466,776
ASSIGNED	2,769,434	380,825	478,573	1,150,921	4,779,753
UNASSIGNED	7,429,223			(254,163)	7,175,060
TOTAL FUND BALANCES	10,596,830	13,191,739	833,578	15,283,549	39,905,696
TOTAL LIABILITIES & FUND BALANCES	$ 12,161,298	$ 14,383,687	$ 1,562,628	$ 16,980,967	$ 45,088,580

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

ISLAND COUNTY, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

Total fund balances as shown on the Governmental Funds Balance Sheet	$	39,905,696
Capital Assets used in governmental activities are not financial resources therefore are not reported in the funds		102,303,438
Capital Assets acquired through donation of property value are not included in the funds		4,157,500
Long-term debts are not due and payable in the current period and therefore are not reported in the funds		(10,144,717)
Other Assets are not available to pay current expenditures , such as property taxes and notes receivables and therefore are not reported in the funds.		3,049,649
Internal Service Funds are used by the County to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The assets and liabilities of these funds are included in the governmental activities in the Statement of Net Assets.		11,109,503
Other Liabilities such as Compensated Absences that are not due and payable in the current period and are not reported in the funds.		(4,342,935)
Net Assets of Governmental Activities	$	146,038,134

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	GENERAL FUND	COUNTY ROAD FUND	CONSERVATION FUTURES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
TAXES	$ 13,567,568	$ 8,029,725	$ 672,437	$ 5,103,720	$ 27,373,450
LICENSES AND PERMITS	912,602	76,724		468,464	1,457,790
INTERGOVERNMENTAL REVENUE	2,971,068	8,077,783	1,195,145	2,968,260	15,212,256
CHARGES FOR SERVICES	1,945,974	65,708		3,168,937	5,180,619
FINES AND FORFEITS	570,875			4,115	574,990
INTEREST AND INVESTMENT EARNINGS	264,646	92,649	37,098	97,499	491,892
MISCELLANEOUS	409,117	3,399	1,297	623,149	1,036,962
TOTAL REVENUES	20,641,850	16,345,988	1,905,977	12,434,144	51,327,959
EXPENDITURES					
CURRENT					
GENERAL GOVERNMENT	10,099,617			656,877	10,756,494
PUBLIC SAFETY	7,615,858			1,922,467	9,538,325
UTILITIES AND ENVIRONMENT	237,954			1,326,528	1,564,482
TRANSPORTATION		8,036,780		291,404	8,328,184
ECONOMIC ENVIRONMENT	1,670,915			626,131	2,297,046
MENTAL & PHYSICAL HEALTH				4,357,488	4,357,488
CULTURE & RECREATION	291,892		117,812	625,007	1,034,711
DEBT SERVICE					
PRINCIPAL	3,304		205,093	685,544	893,941
INTEREST	14,430		51,362	345,679	411,471
CAPITAL OUTLAY	121,268	4,231,964	2,194,287	580,819	7,128,338
TOTAL EXPENDITURES	20,055,238	12,268,744	2,568,554	11,417,944	46,310,480
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	586,612	4,077,244	(662,577)	1,016,200	5,017,479
OTHER FINANCING SOURCES(USES)					
PROCEEDS OF LONG TERM DEBT				170,634	170,634
OTHER NONREVENUES				168,685	168,685
DISPOSITION OF CAPITAL ASSETS		76,454		4,621	81,075
TRANSFERS IN	2,663,660	134,000		2,146,734	4,944,394
TRANSFERS (OUT)	(1,414,578)	(1,711,216)	(15,018)	(1,453,633)	(4,594,445)
TOTAL OTHER SOURCES (USES)	1,249,082	(1,500,762)	(15,018)	1,037,041	770,343
NET CHANGE IN FUND BALANCES	1,835,694	2,576,482	(677,595)	2,053,241	5,787,822
FUND BALANCES, AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED	8,450,754	10,615,257	1,511,173	13,540,690	34,117,874
PRIOR PERIOD ADJUSTMENT	310,382			(310,382)	
FUND BALANCES, AT BEGINNING OF YEAR RESTATED	8,761,136	10,615,257	1,511,173	13,230,308	34,117,874
FUND BALANCES, AT END OF YEAR	$ 10,596,830	$ 13,191,739	$ 833,578	$ 15,283,549	$ 39,905,696

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

ISLAND COUNTY, WASHINGTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Net Change in Fund Balances for Governmental Funds	$ 5,787,822
Governmental funds report capital outlay as expenditure. However in the Statement of Activities, the cost of the assets is allocated over the estimated useful lives as depreciation expense.	6,414,066
Proceeds of notes receivable provide current resources to governmental funds but decrease assets in the Statement of Net Assets.	1,949
Debt proceeds provide current financial resources to governmental funds but debt increases long-term liabilities in the Statement of Net Assets	(170,634)
The issuance of long-term debt provides current financial resources to governmental funds, while repayments of bond principal and other long-term note payments are expenditures in governmental funds. Neither transaction has any effect on net assets. Governmental funds report the effect of refundings, issuance costs, premiums, and similar items when debt is first issued , whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	893,941
Internal Service Funds are used by the County to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The net costs of the internal service funds are reported with the governmental activities in the Statement of Activities.	(570,411)
Some expenses and revenues reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures and revenues in governmental funds.	(1,144,092)
Changes in Net Assets of Governmental Activities on the Statement of Activities	$ 11,212,641

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2012

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS				
CASH	$ 749,097	$ 526	$ 749,623	$ 216,945
DUE FROM OTHER FUNDS	173		173	148,487
OTHER RECEIVABLES, NET	376,325		376,325	40,874
DUE FROM OTHER GOVERNMENTS			-	
INVENTORIES				402,670
PREPAID ITEMS				396,698
TOTAL CURRENT ASSETS	1,125,595	526	1,126,121	1,205,674
NONCURRENT ASSETS				
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE	2,363,752	4,809	2,368,561	1,977,241
RESTRICTED ASSETS - CASH	2,856,420		2,856,420	
CAPITAL ASSETS - Net of Accumulated Depreciation				
LAND	559,890	507,647	1,067,537	781,692
BUILDINGS AND OTHER IMPROVEMENTS	2,588,422	643,994	3,232,416	2,960,342
MACHINERY AND EQUIPMENT	522,725		522,725	4,792,883
INTANGIBLE ASSETS	38,413		38,413	
TOTAL NON-CURRENT ASSETS	8,929,622	1,156,450	10,086,072	10,512,158
TOTAL ASSETS	10,055,217	1,156,976	11,212,193	11,717,832
LIABILITIES				
CURRENT LIABILITIES				
ACCOUNTS PAYABLE	312,108	1,904	314,012	152,768
DUE TO OTHER FUNDS	11,505	453	11,958	29,812
DUE TO OTHER GOVERNMENTS	13,368	7	13,375	4
OTHER CURRENT LIABILITIES				316,871
TOTAL CURRENT LIABILITIES	336,981	2,364	339,345	499,455
NONCURRENT LIABILITIES				
PAYABLE FROM RESTRICTED ASSETS	2,856,420		2,856,420	
COMPENSATED ABSENCES	169,331	7,240	176,571	1,777
TOTAL NONCURRENT LIABILITIES	3,025,751	7,240	3,032,991	1,777
TOTAL LIABILITIES	3,362,732	9,604	3,372,336	501,232
NET POSITION				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	3,709,450	1,151,641	4,861,091	8,534,917
UNRESTRICTED	2,983,035	(4,269)	2,978,766	2,681,683
TOTAL NET POSITIION	$ 6,692,485	$ 1,147,372	7,839,857	$ 11,216,600
Adjustments to reflect consolidation of internal service fund activities related to enterprise funds			107,097	
Net Assets of business-type activities			$ 7,946,954	

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenue				
Charges for services	$ 5,749,297	$	$ 5,749,297	$ 897,975
Equipment and space rents		18,243	18,243	1,675,275
Sales of merchandise				1,149,846
Miscellaneous revenue	285		285	
Total operating revenues	5,749,582	18,243	5,767,825	3,723,096
Operating Expenses				
Wages and benefits	1,445,462	16,487	1,461,949	520,040
Maintenance and operation	3,559,441	13,637	3,573,078	2,762,060
Landfill post closure costs	135,941		135,941	
Depreciation and amortization	342,971	16,825	359,796	990,729
Total operating expenses	5,483,815	46,949	5,530,764	4,272,829
Net operating income(loss)	265,767	(28,706)	237,061	(549,733)
Non-Operating Revenue (Expense)				
Interest Income	4,607		4,607	22,484
Interest expense				
Operating Grants	116,836	10	116,846	
Disposition of capital assets	535		535	16,030
Total non-operating income	121,978	10	121,988	38,514
Net income before transfers	387,745	(28,696)	359,049	(511,219)
Transfers in		1,196	1,196	170,722
Transfers out	(302,683)	(1,000)	(303,683)	(218,184)
Change in Net Position	85,062	(28,500)	56,562	(558,681)
Total Net Position - Beginning	6,607,423	1,175,872		11,775,281
Total Net Position - Ending	$ 6,692,485	$ 1,147,372		$ 11,216,600
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			11,730	
Change in net position of business-type activities			$ 68,292	

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities				
Receipts from Operations	$ 5,860,064	$ 18,243	$ 5,878,307	$ 3,731,890
Payments for Wages and Benefits	(1,440,143)	(15,765)	(1,455,908)	(550,027)
Payments to Suppliers for Goods and Services	(3,341,489)	(11,447)	(3,352,936)	(2,602,601)
Payments for Landfill Closure Costs	(135,941)		(135,941)	
Internal Activity - Payments to Other Funds	(226,613)	(1,744)	(228,357)	
Net Cash Provided (used) by Operating Activities	715,878	(10,713)	705,165	579,262
Cash Flows from Non-Capital Financing Activities:				
Operating Grants	155,465	10	155,475	
Transfers	(302,683)	534	(302,149)	(159,114)
Net Cash Provided (Used) by Non-Capital Financing Activities	(147,218)	544	(146,674)	(159,114)
Cash Flows from Capital and Related Financing Activities				
Purchases of Capital Assets	(106,698)		(106,698)	(920,104)
Cash received from Sale of Capital Assets	655		655	20,256
Net Cash Used for Capital and Related Financing Activities	(106,043)		(106,043)	(899,848)
Cash Flows from Investing Activities				
Interest on Investments	4,607		4,607	22,484
Net Cash Provided by Investing Activities	4,607		4,607	22,484
Net Increase (Decrease) in Cash and Cash Equivalents	467,224	(10,169)	457,055	(457,216)
Cash and Cash Equivalents at Beginning of Year	2,645,625	15,504	2,661,129	2,651,402
Cash and Cash Equivalents at End of Year	3,112,849	5,335	3,118,184	2,194,186
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	265,767	(28,706)	237,061	(549,733)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	342,971	16,825	359,796	990,729
Change in IBNR				114,871
Changes in Assets and Liabilities				
Accounts Receivable, Net	110,767		110,767	8,738
Inventory				59,766
Accounts Payable	(23,047)	776	(22,271)	(22,059)
Compensated Absences	5,319	392	5,711	(29,234)
Other Operating Assets	8,043		8,043	
Interfund Activity	6,058		6,058	6,184
Total Adjustments	450,111	17,993	468,104	1,128,995
Net Cash Provided by Operating Activities	$ 715,878	$ (10,713)	$ 705,165	$ 579,262

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2012

		AGENCY FUNDS
ASSETS		
CASH	$	2,600,838
INVESTMENTS, AT FAIR VALUE		19,894,850
TAXES RECEIVABLE		5,108,761
OTHER RECEIVABLES, NET		4,912
DUE FROM OTHER GOVERNMENTS		
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE		21,124,275
TOTAL ASSETS	$	48,733,636
LIABILITIES		
ACCOUNTS PAYABLE	$	43,624,875
DEFERRED REVENUE		5,108,761
TOTAL LIABILITIES	$	48,733,636

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Island 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. Island County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position beginning with the 2012 reporting year. The significant accounting policies are described below.

A. Reporting Entity

Island County was incorporated on January 6, 1853 and operates under the laws of the State of Washington applicable to Category 1 Counties with a commissioner form of government. As required by the generally accepted accounting principles the financial statements present Island County – the primary government.

Island County is a general purpose government and provides services such as public safety, road construction and maintenance, judicial administration, parks and recreation, health and social services, solid waste management, planning, zoning, and general administrative services.

B. Government-Wide and Fund Financial Statements

The Government-wide Financial Statements consist of two financial statements: 1) Statement of Net Position; and 2) Statement of Activities, and report information on all the nonfiduciary activities of Island County. For the most part, the effect of interfund activity has been removed from these statements. The statements distinguish between governmental activities and business-type activities. Governmental activities are supported by taxes and intergovernmental revenues. Business-type activities significantly rely on fees and charges to external parties for goods and services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers and applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not specific to a particular program are reported as general revenues.

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

The County reports the following functions:

- General Government – Legislative and administrative services, including judicial, recording, elections, financial services, legislative, personnel administration, risk management, and facility management.
- Public Safety – Protection and safety of the citizens at large, including expenses for law enforcement, prevention services, inspections, regulatory enforcement, detention and corrections, emergency services, and juvenile services.

- Utilities and Environment – Programs that improve the physical environment of the community and citizens of the County including natural resources, water, solid waste, drainage and animal control.
- Transportation – Programs to ensure safe and adequate flow of vehicles and pedestrians in the County, including road and street preservation, construction and maintenance.
- Economic Environment – Programs that improve the welfare of the community and individuals of the County, including development, community planning and housing.
- Mental and Physical Health – Programs that provide prevention, intervention and rehabilitative human services for the citizens with an emphasis on serving those most in need, including veteran's services, mental health, substance abuse prevention and treatment, aging, public health, and children's services.
- Culture and Recreation – Costs associated with the maintenance and operations of County Parks, paths and trails, natural land, recreational facilities, and the fairgrounds.

Island County allocates indirect costs to specific functions through operating transfers. The amounts are based on estimated allocations of budget expenditures to the functions. These amounts have been eliminated in the government-wide financial statements. Capital transfers are made for the fund's share of capital expenditures. Other operating transfers are transactions in which assets are moved without any compensation or any requirement for repayment. These have been eliminated within the governmental activities and business-type activities statements. Transfers between the two activities are shown on the statement of activities.

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 funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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, Island County considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Island County considers property taxes as available if they are collected within sixty days after year end. 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 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 assessment 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 receivable by Island County.

Island County reports the major funds individually and the non-major funds in total on the fund financial statements. A fund is considered major if it is the primary operating fund of the entity or if its assets, liabilities, or revenues or expenditures equal at least 10% of the corresponding total for all funds of that type, or at least 5% of the corresponding total for all governmental and enterprise funds combined. Separate financial statements are provided for governmental, proprietary and fiduciary funds.

The County reports the following major governmental funds:

- General Fund: This fund is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Managerial funds which do not meet the requirement of special revenue funds are combined with the current expense fund and all activity is reported as the General Fund.
- County Road Fund: This fund is used to account for the construction, preservation, and maintenance of county streets, and roads and the design and coordination of county-wide public works projects. The fund was established in accordance with RCW 36.33.220. Revenue is primarily derived from road and other taxes and from Federal and State grants.
- Conservation Futures Fund: This fund is used to account for the property tax levied under RCW 82.14.370, which allows up to $0.625 per $1,000 of Assessed value. For 2012 collection, the County levied $0.0526. Revenues derived from this tax are restricted to expenditures for acquisition of open space, agriculture, and timberland pursuant to RCW 84.34.210 and 84.34.220.

The County reports the following major proprietary fund:

- Solid Waste Fund: This fund is administered by Public Works and accounts for the operations, capital improvements and debt service of the county Solid Waste Facilities. Revenue comes from the collection of fees at the facilities.

The County, like other State and Local Governments, utilizes fund accounting to ensure and demonstrate finance related legal compliance and to aid financial management by segregating transactions related to specific governmental activities, functions or objectives. Each fund is considered a separate accounting entity and has a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. The funds are summarized by fund type in the fund financial statements. The following are the fund types utilized by Island County:

GOVERNMENTAL FUND TYPES

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available expendable resources". Governmental fund operating statements focus on measuring changes in financial position rather than net income; they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net total assets. The unassigned fund balance is a measure of available spendable resources.

General Fund - This fund is the general operating fund of the County. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

Special Revenue Funds - These funds account for and report revenues that are restricted or committed to expenditures for a specific purpose other than debt service or capital projects.

Debt Service Funds - These funds account for the accumulation of resources to pay principal, interest and related costs on certain general long-term bonded debt.

Capital Projects Funds - These funds account for financial resources, which are designated for the acquisition or construction of general government capital improvements.

PROPRIETARY FUND TYPES

Proprietary funds are accounted for using the economic resources measurement focus, which emphasizes the measurement of costs and determination of net income. All assets and all liabilities associated with the activity are reported on the balance sheets. Revenues and expenses are reported on a full accrual basis – revenues are recorded when earned, expenses are recorded when a measurable liability has been incurred. Proprietary funds disclose cash flows by a separate statement. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

Proprietary Funds are generally used to account for services for which the County charges customers, or internal departments or agencies. The County maintains the following two types of Proprietary Funds:

Enterprise Funds – Enterprise Funds are supported by fees paid by users based on the amount of goods or services received. The County utilizes Enterprise Funds for the following:

- Solid Waste Management: To account for the administration, operation, capital improvement and debt service of the County Solid Waste Facilities.
- Park Facility Management Fund: To account for the administration, operation, maintenance and capital improvement of a County-owned park and habitat conservation areas.

Internal Service Funds – Internal Service Funds are utilized to account for the financing of services and supplies provided by one department or agency, to other departments or agencies of the County on a cost-reimbursement basis. These services predominantly benefit governmental rather than Business-type functions; therefore they are included within the Governmental Activities in the Government-wide Financial Statements. The Internal Services Funds are combined into a single, aggregated presentation, in the Proprietary Fund Financial Statements. The County utilizes Internal Service Funds for the following:

- Equipment Rental and Revolving Fund: To account for the maintenance, operation, and inventory of equipment and road construction materials utilized by the Public Works Department.
- Insurance Reserve Fund: To account for self-insurance, outside insurance, and claims.
- Motor Pool Fund: To account for the purchase, maintenance, and tracking of County owned vehicles.

FIDUCIARY FUND TYPES

These funds account for assets held by the County on behalf of other governments and other funds. These funds are used to account for cash and other assets received and held by the County acting in the capacity of trustee or custodian.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the general, special revenue, and proprietary funds on the modified accrual cash basis of accounting and include expenditures paid in 2012 and January 2013, plus 2011 expenditures paid after January 31, 2012. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project each fiscal year.

Annual appropriated budgets are adopted at the level of the fund except in the General Fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for all budgeted funds lapse at year-end.

2. Amending the Budget

The Board of Commissioners must approve by resolution any increase in total fund appropriations. The Budget Director may authorize transfers of appropriations not to exceed $20,000 within a fund for the respective department's budget.

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. 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.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturity of 90 days or less. It is the County's policy to invest all temporary cash surpluses, those funds not required for immediate expenditure. At December 31, 2012, the Treasurer was holding $61,797,354 in long term investments for the County, and $19,894,850 for public entities required to deposit funds with the County Treasury. These amounts are classified on the balance sheet as investments of surplus cash in various funds.

The long-term investment interest is allocated to the various funds based on cash held in each fund at December 31, 2012. The interest on these investments for all fiduciary, trust, and agency funds is credited to the General Fund. The interest for government funds, without resolutions directing investments, is prorated to the various funds and recorded as operating transfers-out to the General Fund.

2. Investments - See Deposits and Investment Note 4

3. Receivables

Taxes receivable consist of property taxes levied. Related interest and penalties are accrued when earned; measurable and available (See Note 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, 2012, $83,216 of special assessments receivable were delinquent for the Clean Water Utility Fund 154.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services.

4. Amounts Due To and From Other Funds, and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as interfund loans or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Due to/from other funds include short-term interfund receivables and payables. Any residual balances outstanding between governmental activities and business-type activities are reported as internal balances in the government-wide financial statement.

At the year-end, there was one interfund loan from REET 2 to the Conservation Futures Fund with a balance due of $616,000. The loan was necessary to ensure adequate resources and operating cash flow remains available within the Conservation Futures program. The loan is payable annually beginning in 2010 and interest at the State Invested Pool rate shall be paid annually on the unpaid principal balance. A payment of $270,000 was made in 2010. The loan shall be paid in full on or before December 31, 2014.

A separate schedule of interfund balances and transfers is furnished in Note 15.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time of purchase. Ending inventories of materials and supplies are not material; therefore, they are not recorded as inventory in governmental funds. Inventories in proprietary funds are recorded by the weighted average cost method for crushed rock, fuel and oil inventory. Ending inventory is valued at the lower of cost or market.

6. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service including current and delinquent special assessments receivable. Specific debt service reserve requirements are described in Note 10.

> The Solid Waste Fund has restricted assets, consisting of cash of $2,856,420, set aside for landfill closure and post-closure costs, including maintenance, monitoring equipment and facilities. The amount is also shown as a liability payable from restricted assets.

7. Capital Assets - (See Note 6)

Capital assets which include property, plant, equipment, infrastructure (e.g., roads, sidewalks, etc.), and intangible assets are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. 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. The cost of normal maintenance and repairs that do not add value to the asset or materially extend the useful life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was incurred as part of the cost of capital assets constructed during the current fiscal year.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the estimated useful life of the asset. Intangible assets with a determinate life are amortized over a life of 5 to 10 years. The intangible assets with an indefinite life are not amortized. Generally, buildings and other improvements are assigned an estimated useful life of 15 to 40 years, machinery and equipment 5 to 20 years, and infrastructure 20 to 40 years.

8. Compensated Absences

Total accrued liabilities for the primary government consist of compensated absences of $3,437,043 and other post employment benefits payable of $1,053,752. Compensated absences are absences for which employees will be paid, such as comp time, vacation and sick leave. The County records all vacation and sick leave liability when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Contracts with employees call for the accumulation of vacation and sick leave. At retirement or termination, all employees receive a cash payment for accumulated vacation leave up to a maximum in accordance with contracts or 240 hours, whichever is greater and 50% of sick leave accumulated up to a maximum of 960 hours. The payment is based on current wages at termination. Other post employment benefits payable are disclosed in Note 17.

9. Long-Term Debt - (See Note 10)

10. Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds statements because the revenue recognition criteria has not been met.

11. Fund Balance Classification

The County implemented GASB Statement No 54 Fund Balance Reporting and Governmental Fund Type Definitions beginning with the 2011 reporting year. In the fund financial statements, governmental funds report fund balances based on constraints placed on the use of those resources. Classifications of fund balances are based on the strength of controls placed on how amounts can be spent. Fund balance classifications are nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable Fund Balance - The portion of fund balance that cannot be spent because the amounts are not in spendable form, or legally or contractually required to be maintained intact

Restricted Fund Balance - The portion of the fund balance that is reported as restricted is subject to external constraints placed on the use of resources, Enforceable legal restrictions may be imposed by creditors, grantors, donors, other governments, etc. The restrictions may be imposed by law through constitutional provisions or legislation.

Committed Fund Balance - The portion of fund balance that represents resources whose use is constrained by formal action of the Governing Board and remain binding unless removed in the same manner.

Assigned Fund Balance - The portion of fund balance that reflects the governments intended use of resources but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board or a management official delegated that authority by formal Governing Board action.

Unassigned Fund Balance - The portion of fund balance unassigned is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

12. Fund Balance Details

The table on the following page provides the specific purpose of the County's fund balance classifications as of December 31, 2012.

One fund included in the General Fund in 2011 was reclassified to Other Governmental Funds. The details are disclosed in Note 19.

13. Minimum Fund Balance

The County adopted a Financial Management Policy in 2011 establishing, and maintaining sound financial planning objectives and strategies. The policy formalizes existing practices and fiscal planning providing guidelines for evaluating current activities and future programs. The policy states that all county funds will strive to maintain fund balance of approximately two months of projected revenues in order to provide sufficient cash flows. The policy also discusses replacement revenues for equipment based on projections contained in the County's Capital Equipment Plan.

At December 31, 2012 all funds had total fund balances in excess of two months revenue except Public Health Pooling, Alcohol and Substance Abuse Fund, Human Services Administration Fund, Capital Drainage Fund, Law Library Fund and Enhanced 911 Fund. The General Fund will support the cash flow requirements of the Public Health Pooling fund if needed. The Alcohol and Substance Abuse Fund is $23 thousand short of the two months requirement and has an advance from a state agency which helps to support cash flow requirements. The Human Services Administration Fund supports the Human Services department and funds. The fund's cash flow requirements can be covered by other departmental funds which are supported. The law Library Fund has a $3 thousand deficit. The Enhanced 911 Fund receives telephone taxes and has an agreement with I-COM to provide 911 services. The fund remits taxes collected in exchange for the services and therefore covers its cash flow needs.

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

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position are included in the Financial Statements. Following are the details of the reconciliation.

1. Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Balance of Capital Assets at beginning of year		$ 98,779,372
Assets acquired during 2012		7,128,338
Current year assets disposition		(347,583)
Less Current year depreciation expense		(3,256,689)
	Total	$ 102,303,438
2. Capital Assets acquired through donation of property value are not financial resources and therefore are not reported in the funds.		$ 4,157,500
3. Long-term debts are not due and payable in the current period and therefore are not reported in the funds.		
Balance of long-term debt at beginning of year		$ (10,885,542)
Current year principal payments		893,940
Current year loan proceeds		(170,634)
Current year amortization of Bond Premium		17,519
	Total	$ (10,144,717)
4. Other Assets are not available to pay current expenditures, such as property taxes and notes receivables and therefore are not reported in the funds.		
Property tax receivable at end of year		$ 854,889
District Court receivables not available to finance expenditures		549,098
Note receivable balance water quality assistance at end of year		309,496
Debt refunding and issuance costs		551,949
Grant revenue receivable at end of year		667,605
Assets held for resale		24,948
Other Receivables		91,664
	Total	$ 3,049,649
5. Internal Service Funds are used by the County to charge the costs of activities, such as insurance, equipment, and motor pool to individual funds. The assets and liabilities of these funds are included in governmental		
Net Position of Insurance Reserve Fund applicable to governmental funds		$ 868,520
Net Position of Motor Pool Fund applicable to governmental funds		522,390
Net Position of Equipment Rental and Revolving Fund applicable to governmental funds		9,718,593
	Total	$ 11,109,503

6. Other Liabilities such as Compensated Absences and post employment benefits that are not due and payable in the current period and are not

Compensated absences payable at end of year		$ (3,258,695)
Other Post Employment Benefits payable at end of year		(1,053,751)
Interest due on long-term debt and other payables at year-end		(30,489)
	Total	$ (4,342,935)

Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities are included in the Financial Statements. Following are the details of the reconciliation.

1. Governmental funds report capital outlay as expenditure. However, in the Statement of Activities, the costs of the assets are allocated over the estimated useful lives as depreciation expense.

Assets acquired during 2012		$ 10,018,338
Less Current year depreciation expense		(3,256,689)
Less Current year assets disposition		(347,583)
	Total	$ 6,414,066

2. Net Proceeds of notes receivable provide current resources to governmental funds but decrease assets in the Statement of Net Position.

Proceeds of Notes Receivable		$ (168,685)
Notes Receivable amounts issued		170,634
	Total	$ 1,949

3. Debt proceeds provide current financial resources to governmental funds but debt increases long-term liabilities in the Statement of Net Position

Proceeds from other Debt		$ (170,634)

4. Repayments of bond principal and other long-term notes. LTGO Bond payments are expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

LTGO Bond payments		$ 730,000
Capital Lease payments		3,304
Other Debt principal		160,637
	Total	$ 893,941

5. Internal Service Funds are used by the County to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The net costs of the internal service funds are reported with the

Change in Net Position: Insurance Reserve Fund applicable to governmental funds		$ 152,369
Change in Net Position: Motor Pool Fund applicable to Governmental funds		(100,763)
Change in Net Position: Equipment Rental and Revolving Fund applicable to governmental funds		(622,017)
	Total	$ (570,411)

6. Some expenses and revenues reported in the Statement of Activity do not require the use of current financial resources and therefore are not reported as expenditures and revenues in governmental funds.

Compensated absences not available to finance expenditures		$ (1,566)
Interest due on long-term debt and other payables		(40,225)
Property tax levy not recognized as revenue		72,760
Other Post Employment benefits payable not requiring resources		(120,700)
Revenue receivable not available to finance expenditures		(1,054,361)
	Total	$ (1,144,092)

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

All funds except Human Services Fund and Natural Resources Fund have a positive fund balance. The deficit fund balance of $2,341 is the Human Services Fund as of December 31, 2012, is covered by deferred grant revenues with a balance of $4,735. The fund began in 2012 and supports all other Human Services activities and functions. The Natural Resources Fund was established in 2012 in order to establish accountability for the Natural Resources Department. The fund had a deficit of $12,204 at December 31, 2012 and has deferred revenues of $30,063 which will cover the deficit.

The 2012 annual budget was adopted on the modified accrual cash basis which includes 2012 expenditures paid in 2012 and in January 2013 and 2011 expenditures paid after January 31, 2012. For the year ended December 31, 2012, expenditures exceeded appropriations in the following funds:

- County Law Library Fund $634 - The fund received 2012 invoices in January 2012 not included in budget amendments. The over expenditure was funded by available fund balance.
- Water Quality Assistance Fund $7,412 - The fund received 2012 invoices after year end which were not included in budget amendments. The over expenditures were for amounts reimbursed by the revolving loan fund grants.
- 2% Hotel/Motel Public Facilities Fund $5,492-The fund received 2012 invoices after year end. The over expenditure was funded by available fund balance.
- Human Services Fund $3,789- The fund was established in 2012 to account for administrative costs allocated to funds managed by Human Services. Expenditures are primarily funded by grants.
- Juvenile Detention Center Fund $9,158-The fund received 2012 invoices after year end that were not included in the budget amendment. The over expenditure was funded by available fund balance.

NOTE 4 - DEPOSITS AND INVESTMENTS

As required by law, all deposits and investments of the County's funds are obligations of the U.S. Government, U.S. Agency Issues, the State Treasurer's Investment Pool, banker’s acceptances, or deposits with Washington State banks and savings and loan institutions. The book values were not materially different from the bank balances.

The County invests all temporary surplus cash. The investment of cash surplus, which can be liquidated within 90 days, is considered to be cash equivalents for financial statement purposes. Deposits at year-end are insured by the Federal Depository Insurance Commission (FDIC) in the amount of $250,000 per bank. All of the County’s deposits are covered by the State Public Deposit Protection Commission. The Public Deposit Protection Commission as described in RCW 39.58 requires that qualified public depositories segregate its eligible collateral in the form of securities in an amount that equals or exceeds ten percent of its public deposits. This collateral may be segregated by deposit in the trust department of the depository or in such a manner as the Commission has approved and must be clearly designated as a security for the benefits of public depositors. When the Commission has determined there has been a loss in a bank or a thrift depository it would: 1) determine the net deposit liability of the defaulting institution after FDIC coverage; 2) make assessments against all bank depositories or all thrift depositories depending on whether the defaulting institution was a bank or thrift institution; first against the defaulting institution to the full extent of securities pledged as collateral, second against all other bank or thrift depositories for their proportionate share of the loss up to a maximum of 10 percent of each institution’s public deposits; 3) represent all public treasurers for liquidation of the defaulting institution’s assets to recover the remaining net deposit liability, if any exists after assessments against all bank or thrift depositories.

GASB 31 requires adjustments be made to the financial statements to reflect the difference between amortized cost and fair value of investments. The fair value of investments has been determined using quoted market prices, which are equivalent to market value. The County’s investments are shown on the balance sheet at fair value and unrealized gain or loss is recognized based on the market value at year-end. The investments of fiduciary funds are reported at fair value on the statement of Fiduciary Net Assets.

The County's investments are categorized to give an indication of the risk assumed at year-end. The following summary shows the County's investments at year-end categorized by risk. Category 1 includes investments that are insured, registered or held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments, which are held by the counter party's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or its trust department or agent, but not in the County's name. All investments of the County at December 31 are Category 1 except investment in the State Treasurer's Investment Pool (LGIP) which is not categorized.
Following are the details of investments as of December 31, 2012:

Investment	Maturities	Island County Investments Fair Value	Island County as Fiscal Agent Fair Value	Total Investments
State investment pool	$ -	$ -	$ 16,948,715	$ 16,948,715
U.S. Agencies	60,200,000	59,297,354	1,091,835	60,389,189
Certificates of Deposit	4,354,300	2,500,000	1,854,300	4,354,300
Total Investments	**$ 64,554,300**	**$ 61,797,354**	**$ 19,894,850**	**$ 81,692,204**

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 at the end of each month.

PROPERTY TAX CALENDAR

January 01	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 payment is due.

Property taxes are recorded as a receivable when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. 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 $1000 of assessed valuation for general governmental services. This regular levy includes Veteran's Relief, Mental Health, and Developmental Disabilities. For 2012 the total was $.63440 on an assessment valuation of $12.3 billion. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The County is also authorized to levy $2.25 per $1,000 of assessed valuation in unincorporated areas for road construction and maintenance. That levy is subject to the same limitations as the levy for general government services. The county's road levy for 2012 was $.80537 per $1,000 on an assessed valuation of $10.1 billion. Special levies approved by the voters are not subject to the above limitations. In 2012, the county levied an additional $.05565 per $1,000 for Conservation Futures.

The County levied the following property taxes on the 2012 Levy for 2013 collection.

Purpose of Levy	Levy Rate per $1,000	Total Levy Amount
General Government	$ .59838	$ 7,336,927
Veteran's Relief	.01102	135,150
Mental Health Levy	.01250	153,268
Developmental Disability	.01250	153,268
Total General Government	.63440	$ 7,778,613
Conservation Futures	.05565	682,364
Road Levy	.80537	8,160,355
Total	$ 1.49542	$ 16,621,332

NOTE 6 – CAPITAL ASSETS

A. CAPITAL ASSETS Capital assets activity for the year ended December 31, 2012 was as follows:

Governmental Activities	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital assets, not being depreciated or amortized:				
Land	15,408,599	5,084,287		20,492,886
Construction in progress	1,774,008	3,695,004	(2,608,496)	2,860,516
Intangible Assets	4,679,953	1,371		4,681,324
Total capital assets, not being depreciated or amortized	21,862,560	8,780,662	(2,608,496)	28,034,726
Capital assets being depreciated or amortized:				
Buildings	36,315,856	6,359	(181)	36,322,034
Intangible Assets	2,695,541	18,079	(83,604)	2,630,016
Improvements other than buildings	5,302,782	60,113	(1,311)	5,361,584
Machinery and equipment	18,317,318	1,050,502	(1,743,893)	17,623,927
Infrastructure	73,216,279	3,295,993		76,512,272
Total capital assets being depreciated or amortized	135,847,776	4,431,046	(1,828,989)	138,449,833
Less accumulated depreciation or amortization for:				
Buildings	(14,647,408)	(733,474)		(15,380,882)
Intangible Assets	(1,388,514)	(313,190)	81,136	(1,620,568)
Improvements other than buildings	(2,843,329)	(169,774)		(3,013,103)
Machinery and equipment	(13,209,002)	(978,532)	1,731,276	(12,456,258)
Infrastructure	(16,965,445)	(2,052,448)		(19,017,893)
Total accumulated depreciation or amortization	(49,053,698)	(4,247,418)	1,812,412	(51,488,704)
Total capital assets, being depreciated or amortized, net	86,794,078	183,628	(16,577)	86,961,129
Governmental activities capital assets, net	**108,656,638**	**8,964,290**	**(2,625,073)**	**114,995,855**

Business-Type Activities	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital assets, not being depreciated:				
Land	1,067,537			1,067,537
Total capital assets, not being depreciated	1,067,537			1,067,537
Capital assets being depreciated or amortized:				
Buildings	2,455,737			2,455,737
Intangible Assets	59,096			59,096
Improvements other than buildings	4,774,344	7,930		4,782,274
Machinery and equipment	2,362,829	98,768	(215,915)	2,245,682
Total capital assets being depreciated or amortized	9,652,006	106,698	(215,915)	9,542,789
Less accumulated depreciation or amortization for:				
Buildings	(1,085,788)	(53,140)		(1,138,928)
Intangible Assets	(14,774)	(5,910)		(20,684)
Improvements other than buildings	(2,660,440)	(206,227)		(2,866,667)
Machinery and equipment	(1,844,231)	(94,520)	215,795	(1,722,956)
Total accumulated depreciation or amortization	(5,605,233)	(359,797)	215,795	(5,749,235)
Total capital assets, being depreciated or amortized, net	4,046,772	(253,099)	(120)	3,793,553
Business-type activities capital assets, net	**5,114,309**	**(253,099)**	**(120)**	**4,861,091**

Depreciation and amortization expense was charged to functions/programs of the primary government as follows:

Governmental Activities	**Amount**
General Government	$ 524,281
Public Safety	527,127
Physical Environment	5,939
Transportation	2,898,194
Economic Environment	65,309
Health and Human Services	84,093
Culture and Recreation	142,475
Total Depreciation and Amortization– Governmental Activities	$ 4,247,418

Business-Type Activities	**Amount**
Solid Waste	$ 342,972
Four Springs Lake Preserve	16,825
Total Depreciation and Amortization – Business-Type Activities	$ 359,797

B Collections Not Capitalized

The County has no collections that are not capitalized as of December 31, 2012.

C. Construction Commitments

The County has active construction projects as of December 31, 2012. At year-end the government's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Various Road Projects	$ 113,575	$ 118,119
New County Road	$ 395,141	$ 98,160
Computer Swap-Out		$ 116,238
Freeland Trail	$ 104,783	$ 76,743

NOTE 7 – PENSION PLANS

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

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

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

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

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

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

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

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

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

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

<u>Funding Policy</u>

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. 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, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer: State Agency*	9.71%	9.71%	9.71%**
Employer: Local Government*	7.21%	7.21%	7.21%**
Employee: State Agency	9.76%	9.10%	7.50%***
Employee: Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate

Both Island County and the employees made the required contributions. The County's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 31,853	$ 909,588	$ 158,015
2011	$ 35,180	$ 761,903	$ 132,474
2010	$ 28,519	$ 639,610	$ 119,238

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership 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. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.
LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF 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. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years 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 (FAS) 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%

The FAS 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. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Non-vested	3,113
Total	27,658

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates 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 recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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. For DRS' fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements 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, 2012, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for ports and universities is 8.62%.

Both Island County and the employees made the required contributions. The County's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2012	$ 0	$ 128,343
2011	$ 0	$ 126,969
2010	$ 0	$ 138,099

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- Full-time employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- 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 the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

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 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) 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, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire 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.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

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

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Non-vested	4,020
Total	4,203

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. 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, 2012, are as follows:

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

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

Both Island 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
2012	$ 59,156
2011	$ 49,665
2010	$ 53,144

Deferred Compensation Plan

The County offers its employees a deferred compensation program created in accordance with Internal Revenue Code Section 457. The employees have a choice of 3 independent plan administrators, Hartford Life Insurance Company, Nationwide Retirement Solutions or Department of Retirement Systems. The plan, available to eligible employees, permits them to defer tax on a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts property or rights are held in trust until paid or made available to the employee or other beneficiary. Except as may otherwise be permitted or required by law, no assets or income of the plan shall be used for, or diverted to, purposes other than for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plans.

NOTE 8 – RISK MANAGEMENT

Island County is one of twenty-seven member counties of the Washington Counties Risk Pool ("Pool"). Other members include: Adams, Benton, Chelan and Clallam, Clark, Columbia, Cowlitz, and Douglas, Franklin, Garfield and Grays Harbor, Jefferson, Kittitas, Lewis and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Kitsap, Klickitat and Whitman Counties were former Pool members, having terminated their memberships September 20th of 2010, 2002 and 2003 respectively.

Contingent Liability: The pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits resulting from any of the Pool's fiscal years are financed by proportional reassessments (aka retroactive assessments) against the deficient year's membership. The Pool's reassessments receivable balance at December 31, 2012 was ZERO ($0) as no contingent liabilities were known to exist at that time.

Joint Self-Insurance Liability Program: The Pool has provided its member counties occurrence-based jointly self-insured and/or jointly purchased liability coverage since October 1, 1988 for 3rd-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, including public officials' errors and omissions. Total coverage limits have grown over time from the $1 million limit during the Pool's initial two months to $5 million, then to $10 million and onto $15 million before reaching the $20 million limit existing the past eight years. (Note: Additional limits of $5 million were offered over the past several years for acquisition as a member-by-member option.)

Except for the Pool's self insured retention (the greater of the member's deductible or $100,000), the initial coverage of at least $10 million has been fully reinsured since October 1994 by superior-rated commercial carriers. Members annually select a deductible amount of $10,000, $25,000, $50,000, $100,000, $250,000, or $500,000 for each occurrence. The remaining insurance (up to $15 million) is required as "following form" excess insurance from superior-rated commercial carriers. There are no aggregate limits to the payments made for any one member county or all member counties combined.

The Pool's claims database increased during Py2012 with the addition of 634 new claims (and lawsuits) raising the 3rd-party liability claims to-date total submitted by member counties to 18,616. Estimates of incurred losses (payments made plus reserved estimates for *open* claims) increased $5.4 million during the year to $242.8 million. The Py2012 amount represents just 34% of the corresponding $16.0M increase in PY2011, 30% of the $17.8M in Py2010, and only 26% of the $20.8M annual average during Py2007 - PY2009.

Washington Counties Property Program ("WCPP"): Since the Pool began offering the jointly-purchased, fully-insured property insurance coverage to its membership as an individual county option in October 2005, participation has grown by more than 50% and the total value of covered properties has nearly doubled. Twenty six member counties with covered properties totaling $2.67 billion participated in this program during Py2012.
Coverage is for structures, vehicles, mobile equipment, EDP equipment, etc., and composite limits include $500 million for normal (All Other Perils) exposures and $200 million for catastrophe (Flood / Earthquake) exposures. Occurrence deductibles, which the participating counties select annually and which the counties are solely responsible for paying, range between $5,000 and $50,000 for the AOP coverage.

Superior-rated commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. There were 7 claims filed during Py2012 by participating counties with incurred loss estimates totaling $0.35 million. During the WCPP's first seven years as a WCRP optional insuring program, there have been 85 property claims filed with incurred-to-date losses totaling slightly more than $11 million. With to-date premiums for this coverage totaling nearly $16.5 million, the program's cumulative loss ration is 0.667.

Other Insurances: Several member counties also use the Pool's producer (broker) for other insurance placements. Public officials bonds, or crime (& fidelity), special events/concessionaires Underground Storage Tanks and other environmental hazards insurance coverages are examples.

Background: The Pool was formed August 18, 1988 when several Washington counties approved an Interlocal (Cooperative) Agreement under Chapter 39.34 RCW to provide its member counties with "joint" programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling and risk management. Washington's pools operate under Washington's "pooling" laws, more specifically Chapters 48.62 RCW and 82.60 WAC. They are overseen by the State Risk Manager and subject to fiscal audits performed annually by the State Auditor.

The Pool's mission is: To provide comprehensive and economical risk coverage; to reduce the frequency and severity of losses; and to decrease costs incurred in the managing and litigation of claims. The Pool's core values include: being committed to learn, understand and respond to the member counties' insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool's board of directors and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

The enabling Interlocal Agreement was amended once (in 2000) to add a Membership Compact, a commitment to strengthen the Pool by helping its member counties implement and/or enhance local risk management efforts to reduce losses and support the best management of the Pool and its resources. The intent of the Compact was to obligate member counties to support these goals through three major elements; membership involvement, risk control practices, and a targeted risk management program.

A new member may be asked to pay the Pool modest admittance fees to cover the members' share of the Pool's organizational expenses and the costs to analyze their loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for any unresolved, unreported, and in-process claims for the periods that former member was a signatory to the Interlocal Agreement.

Governance/Oversight: The Pool is governed by a board of directors consisting of one director (and at least one alternate director) appointed by each member county. The Pool's board of directors, made up of both elected and appointed county officials, meets three times each year with the summer meeting being the Pool's Annual Meeting. The board of directors is responsible for determining the 3rd-party liability coverage to be offered (approving the insuring document or coverage form), the reinsurance program(s) to acquire and the excess insurance(s) to be jointly purchased or offered for optional purchase by the member counties, for approval of the Pool's annual operating budget(s) and work program(s), and for approval of the member deposit assessment formulas applicable to the ensuing policy year.

Regular oversight of the Pool's operations is furnished by an 11-person executive committee. The committeepersons are elected by the Pool's board of directors from its membership to staggered 3-year terms during each Annual Meeting. The committee meets several times throughout the year to approve all Pool disbursements and examine the Pool's financial health; to approve any case settlement exceeding the members' deductible by at least $50,000 and to review all claims with incurred loss estimates exceeding $100,000; to evaluate the Executive Director and the Pool's operations and program deliverables; and to participate in the board's standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization's policies and coverage documents.

Staffing and Support Teams: The Pool's 6-person claims staff with more than ninety years of combined claims-handling experience handles or oversees the handling of the several hundred liability cases filed upon the Pool's member counties each year. This includes establishing reserves for covered events and estimating undiscounted future cash payments for losses and their related claims adjustment expenses. Other Pool staffers provide various member services, e.g. conducting risk assessments and compliance audits, coordinating numerous trainings, researching other coverages and marketing. Some address and support the organization's administrative needs.

Professionals from some of the most respected organizations worldwide are called upon regularly to address specific needs of the Pool. For example, independent actuarial services are furnished by PricewaterhouseCoopers, LLP; independent claims auditing is performed by Strategic Claims Direction with special claims audits frequently performed by the Pool's commercial reinsurers / insurers; insurance producer (brokerage) and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; and coverage counsel is provided by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend Pool cases, as well as the examinations by and services from the State Risk Manager and the State Auditor.

Financial Summary: The following constitute the more significant highlights from the Pool's most recently completed Policy (Fiscal) Year (October 2011 through September 2012):

- *Net Operating Income* realized was $1.8 million, a 132% year-over year increase and nearly triple the annual average from the past ten years, 2002-2011.

- *Total Assets* grew $1.0 million (2%) to $42.1 million. Current assets increased $1.2 million (3%) while non-current assets decreased 0.2 million (16%).

- *Total Claims Reserves* for the Pool's direct reserving exposures decreased 2% to $14.7 million. This total includes: $4.3 million for losses in the coverage layer retained by the Pool, down 23%; $9.4 million for the aggregated stop losses in the retained layers associated with the "corridor" program for automobile and general liabilities, up 10%; and $1.0 million for unallocated loss adjustment expenses, up 17% from one year ago. *NOTE: The corridor program referenced is now six years old yet still not fully matured. Further, its occurrence coverage maximum was increased to $1.0 million beginning in Py2010, up from the $0.5 million level that existed during the program's first three years, while the program's occurrence minimum remains the greater of the applicable member's deductible or $100,000.*

- *Net Position* (formerly referred to as *Net Assets* and also known as *Members' Equity*) increased nearly $1.8 million to $12.9 million as of September 30, 2012. Of the total, $4.8 million is classified as *Restricted Net Position* - $0.8 million to satisfy the State's solvency provisions (WAC 200.100.03001) plus $4.0 million for the Pool's Underwriting Policy requirements – and another $1.0 million is held as *Capital Assets* (net of debt). The remaining $7.1 million held as *Non-Restricted Net Position*, up from $4.4 million one year before, is available for use as directed by the Pool's Board of Directors.

NOTE 9 – SHORT-TERM DEBT

The County has no short-term debt as of December 31, 2012. Current portion of the long-term debt payments are shown in Note 10.

NOTE 10 – LONG-TERM DEBT

A. Long-term Debt

The County issues general obligation bonds to finance the purchase of equipment and the construction of capital projects. Bonded indebtedness has also been entered into (in prior years) to advance refund several general obligation bonds. General obligation bonds have been issued for both general government and proprietary activities and are being repaid from the applicable resources. All bonds issued for proprietary activities were paid off during 2007, only governmental funds have bond debt payable at December 31, 2012. The County is also liable for State Revolving Loans which are considered obligations of the general government and are being repaid with general governmental revenue.

In the government-wide statements unamortized debt issue costs are recorded as deferred charges; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

The 2010 and 2005 bond issues are both general obligation bonds secured by the full faith and credit of Island County. The bonds will be funded by real estate excise taxes and general ad valorem taxes. However, in the unlikely event that such revenues are insufficient, the general fund will provide funding for any or all debt service relating to these issues.

General Obligation bonds currently outstanding are as follows:

	Purpose	Original Amount	Interest Rate	Amount of Installment
2005 Limited G.O. Bonds	Refunding part 1997A Bond Issue & Construction of Juvenile Detention Facility	$ 7,510,000	Coupon rate of 3.0% to 4.2%	$ 860,295
2010 Limited G.O. Bonds	Advance refunding 2001 LTGO Bond Issue used for Courthouse Expansion and Juvenile Detention Facility	$ 5,320,000	Coupon rate of 3.0% to 4.0%	$ 267,700
			Total	$ 1,127,995

Principal payments are made annually on December 1 and interest is paid on June 1, and December 1. The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2013	770,000	357,995
2014	810,000	327,845
2015	855,000	296,610
2016	890,000	263,260
2017	960,000	227,870
2018-2022	3,195,000	698,800
2023-2025	1,500,000	90,000
Total	$ 8,980,000	$ 2,262,380

B. Revolving Fund and Other Loans

The County currently has five state loans through the Washington State Department of Ecology; four related to Washington State's On-Site Repair Financial Assistance Program and one for property acquisition/conservation. The On-Site repair loans are payable beginning one year after completion date, payable semi-annually for nine payments. The loan for property acquisition is payable semi annually for 20 years with the final payment due in 2021.

Project Completion Date	Original Amount	Interest Rate	Amount at 12/31/12
7/1/09	$ 302,363	0.5%	$ 135,220
6/8/10	$ 197,614	1.1%	$ 110,808
10/31/11	$ 147,425	1.3%	$ 132,463
6/15/15	$ 250,184	1.4%	$ 250,184
11/30/01	$ 685,543	1.5%	$ 340,593
		Total	$ 969,268

The annual debt service requirements for these state loans are as follows:

Year Ending Dec 31	Principal	Interest
2013	$ 179,493	$ 8,290
2014	$ 181,278	$ 6,506
2015	$ 92,436	$ 4,785
2016	$ 123,889	$ 6,397
2017	$ 93,208	$ 4,847
2018-2021	$ 298,962	$ 7,605
Total	$ 969,266	$ 38,430

The liability for compensated absences is recorded in the government-wide statements for all absences due as described in note 1.E.9. The amount is paid to employees as absences are taken. The estimated current amount to be paid is $456,159 for governmental funds and $17,605 for business-type funds.

NOTE 11 – LEASES

A. Operating Leases

The County leases two office buildings, one copy machine, and one site lease under non-cancelable operating leases. One building lease may be adjusted once annually to keep in line with Consumer Price Inflation trends as reported in the Seattle "New All Urban" published by the Washington Local Government Personnel Institute of Labor Relations. The lease ends in 2016. The second building lease and site lease end June 30, 2013. Total costs for all such leases were $97,155 for the year ended December 31, 2012.

Future minimum lease payments for all leases are as follows:

Year Ending December 31	Amount
2013	$ 76,997
2014	$ 53,530
2015	$ 50,981
2016	$ 50,981
Total	$ 232,489

B. Capital Leases & Other Notes Payable

At this time Island County has one active capital lease. A capital lease to upgrade Central Services' mail processing machine and secure beneficial service and rate charges on this equipment was entered into at the end of 2010 with scheduled payments beginning in 2011 and ending in 2013.

Asset	Governmental Activities
Mail System – CS Upgrade	$ 9,917
Less: Accumulated Depreciation	$ (1,913)
Total	$ 8,004

The future minimum lease obligations are $295 per month through December 2013, for a total of $3,540. The present value of the lease payments is $3,456.

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2012, the following changes occurred in long–term liabilities:

	Beginning Balance 01/01/12	Additions	Reductions	Ending Balance 12/31/12	Due within One Year
Governmental Activities:					
General obligation bonds	$ 9,710,000		$ (730,000)	$ 8,980,000	$ 770,000
Amortization/Issuance Costs	209,512		(17,519)	191,993	17,520
Capital leases	6,758		(3,302)	3,456	3,456
Revolving State Fund	959,270	170,634	(160,637)	969,267	179,493
Compensated absences	3,288,140	1,863,962	(1,891,630)	3,260,472	456,159
Other Post Employment Benefits Payable	933,052	197,625	(76,925)	1,053,752	80,771
Governmental activity long-term liabilities:	$15,106,732	$ 2,232,221	$(2,880,013)	$14,458,940	$1,507,399
Business-Type Activities:					
Compensated absences	$ 170,861	$ 93,330	$ (87,620)	$ 176,561	$ 17,605
Business-type activity long-term liabilities:	$ 170,861	$ 93,330	$ (87,620)	$ 176,561	$ 17,605

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $1,777 of internal service funds compensated absences are included in the above amounts. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid.

NOTE 13 - CONTINGENCIES & LITIGATION

Island 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. All estimates for situations which are not yet resolved or known are assumed to be covered by Washington Counties Insurance Risk Pool or Island County's Insurance reserves. In the opinion of management, the County has adequate insurance and reserves to pay all known and pending litigation.

The County participates in a number of federal and state assisted programs. These grants 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. The management believes that such disallowances, if any, will be immaterial.

Island County has a number of closed landfill sites, which may possibly have a potential risk of environmental liability. Two closed landfills, Hastie Lake and Cultus Bay, were subject to investigation during 2000. Both sites were determined to be pollution free. No determination has been made regarding the extent of contamination, if any, at the other landfill sites. As a result, no range of financial liability can be reasonably estimated.

NOTE 14 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports $30.1 million of restricted net assets, which is restricted by enabling legislation.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund balances consist primarily of interfund vouchers accrued at December 31, 2012. These amounts will be cleared in 2013.

Interfund transfers of $5.1 million which includes (1) budget operating transfers of $1.2 million; (2) operating support transfers of $3.3 million and; (3) $0.6 million of capital improvement transfers. A schedule of interfund balances and transfers between funds is on the following page.

NOTE 16 – RECEIVABLE AND PAYABLE BALANCES

A. Other Receivables, Net consist of:

	Governmental Activities	Business-Type Activities
Court fees and fines	$ 539,121	
Accounts receivable, customers		376,325
Cable and telephone fees	528,055	
Interest on investments and property tax	153,353	
Miscellaneous	168,373	
Total	$ 1,388,902	$ 376,325

B. Accounts Payable consist of:

	Governmental Activities	Business-Type Activities
Invoices for daily operating expenses	$ 993,855	$ 249,214
Total	$ 993,855	$ 249,214

C. Other Current Liabilities consist of:

	Governmental Activities	Business-Type Activities
Payroll payable	$ 1,487,264	$ 64,798
Accrued interest on debt	30,489	
IBNR claims	316,871	
Total	$ 1,834,624	$ 64,798

Island County

Schedule of Interfund Balances
For the Year Ended December 31, 2012

	Due From										
	Governmental Activities						Business-Type Activities				
Due To	General Fund	County Road Fund	Conservation Futures Fund	Other Governmental Funds	Internal Service Funds	**Subtotal Governmental Activities**	Solid Waste	Other Business-Type	**Total Business-Type**	Fiduciary Funds	**Total Due From**
Governmental Activities											
General Fund	1,260			39,582	-	40,842	-		-	-	40,842
County Road Fund	7,565			20,316	176	28,057	1,877		1,877		29,934
Conservation Futures Fund						-			-		-
Other Governmental Funds	25,482	46,514		3,917		75,913			-		75,913
Internal Service Funds	68,472	15,973		24,325	29,636	138,406	9,628	453	10,081		148,487
Subtotal	102,779	62,487	-	88,140	29,812	283,218	11,505	453	11,958	-	295,176
Fiduciary Funds											
Business Type Activities-Solid Waste	173	-		-	-	173			-		173
Business Type Activities-Other					-	-			-		-
Total Due To	102,952	62,487	-	88,140	29,812	283,391	11,505	453	11,958	-	295,349

The General Fund amounts include managerial funds which have amounts due to and from other managerial funds.

Schedule of Interfund Transfers
For the Year Ended December 31, 2012

	Transfer Out										
	Governmental Activities						Business-Type Activities				
Transfer In	General Fund	County Road Fund	Conservation Futures Fund	Other Governmental Fund	Internal Service Fund	**Subtotal Governmental Activities**	Solid Waste	Other Business-Type	**Total Business-Type**	Fiduciary Funds	**Total Transfer Out**
Governmental Activities											
General Fund	249,402	1,541,149	15,018	416,407	217,184	2,439,160	223,500	1,000	224,500		2,663,660
County Road Fund				134,000		134,000					134,000
Conservation Futures Fund											
Other Governmental Funds	994,454	170,067		902,030	1,000	2,067,551	79,183		79,183		2,146,734
Internal Service Funds	170,722					170,722					170,722
Subtotal	1,414,578	1,711,216	15,018	1,452,437	218,184	4,811,433	302,683	1,000	303,683		5,115,116
Fiduciary Funds											
Business Type Activities											
Solid Waste											
Other Business Type Funds				1,196		1,196					1,196
Total Business Type Activities	-	-	-	1,196	-	1,196	-	-	-	-	1,196
Total Transfer In	1,414,578	1,711,216	15,018	1,453,633	218,184	4,812,629	302,683	1,000	303,683	-	5,116,312

The General Fund amounts include managerial funds which have transfer amounts to other managerial funds.

NOTE 17 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the County. The members necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by one of the County's employee medical insurance programs and purchase of long-term care insurance. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the County's Comprehensive Annual Financial Report.

Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the County as required by RCW. The County's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of twenty years as of January 1, 2007. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation (NOO) of $1,053,752 is included as a noncurrent liability on the Statement of Net Position.

	Year Ending 12/31/2012
Determination of Annual Required Contribution:	
Normal Cost at year end	$
Amortization of UAAL*	242,518
Annual Required Contribution	$ 242,518
Determination of Net OPEB Obligation:	
Annual Required Contribution	$ 242,518
Interest on prior year Net OPEB Obligation	41,987
Adjustment to ARC	(86,880)
Annual OPEB Cost	197,625
Contribution made	(76,925)
Increase in Net OPEB Obligation	$ 120,700
Net OPEB Obligation-beginning of year	$ 933,052
Net OPEB Obligation-end of year	$ 1,053,752

*Unfunded Actuarial Accrued Liability (UAAL)

The County's OPEB costs, the percentage of OPEB cost contributed to the plan and the net OPEB obligation for 2012 and the preceding three years is as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/09	$ 267,747	34.2%	$ 176,090
12/31/10	$ 227,518	36.3%	$ 145,011
12/31/11	$ 231,552	33.3%	$ 154,429
12/31/12	$ 197,625	38.9%	$ 120,700

Funded Status and Funding Progress

As of January 1, 2007, the plan was 0% funded. The most recent actuarial valuation date is June 30, 2009. The funded status of the plan as of December 31, 2012 was as follows:

Actuarial Accrued Liability (AAL)	$ 2,604,534
Amount Accrued as of 12/31/12	(1,053,752)
Un-accrued Actuarial Liability	$ 1,550,782

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

We have used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF1 medical study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 18 – CLOSURE AND POST-CLOSURE CARE COSTS

In 1992, the Island County Sanitary Landfill Closure and Post-closure Plan was adopted to satisfy the requirements of WAC 173-304, the Washington State Minimum Functional Standards for Solid Waste Handling. The objective of post-closure monitoring and maintenance activities is to ensure the long-term integrity of the closed landfill and its associated environmental control systems. WAC 173-304-407(7) outlines post-closure plan requirements and defines post-closure "as the requirements placed on disposal sites after closure to ensure their environmental safety for at least a 20-year period or until the site becomes stabilized (i.e., little or no settlement, gas production or leachate generation)." In 1993, the Coupeville landfill stopped accepting solid waste and was capped. Groundwater and related air/gas environmental monitoring and minor system maintenance for the landfill gas system flare are funded through tipping fees and included in facility operation costs. Regulations require the County to annually review post-closure cost estimates, including inflation factors. In the event that there are insufficient funds in the post-closure reserve account to pay all amounts relating to the post-closure care of the landfill, the County shall pay any and all shortfalls.

During 2012, there was no revision to the post closure cost estimates. The estimate for annual maintenance and monitoring costs remains at $142,821 per year.

As of December 31, 2012 the estimated future liability for closure and post-closure care costs including post-closure maintenance and monitoring equipment is $2,856,420. As required by federal, state, and local regulations, cash in this amount has been restricted and a liability recorded. Management has also designated a $1,000,000 cash reserve of retained earnings to respond to unanticipated landfill environmental hazards and capital expenditures.

The total current cost of $135,941 includes the amounts expended during the year. The future liability is an estimate and subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

NOTE 19 – OTHER DISCLOSURES

Prior Period Adjustments

GASB 54 specifies new fund type definitions, which limit the use of special revenue funds to those funds that have a substantial portion of revenues that are restricted or committed to expenditures for specified purposes. The new definition requires that funds not meeting this requirement be reported in the funds statements as part of the General Fund. Funds which do not meet the substantial revenue test for special revenue funds are still maintained separately for managerial purposes but are included in the General Fund for financial reporting purposes.

In 2011 a new Clean Water Utility Fund which had no 2011 revenue did not meet the revenue test to be a special revenue fund and was included in the General Fund. In 2012 the fund had restricted revenues and meets the test to be a special revenue fund. The fund had a negative beginning fund balance of $310,382. The amount was reported as the general fund in the prior year and is being reported as the other governmental funds for 2012. This change does not affect the government wide financial statements as the amounts are reported as governmental activities in all years.

Special Items

During 2011, in the government wide financial statements there is a prior period adjustment of $566,190. The Rural County Sales Tax Fund entered into an agreement with a taxing district of the county to fund a project of the district. In prior years the district was reimbursed for property in the amount of $563,822. In December 2011 the county learned that the district also received a grant from another agency that reimbursed the district for the property. Under the terms of the contract, the county has requested that the $563,822 plus interest at the state pool rate of $2,368 for a total of $566,190 be returned to the county. The district issued a resolution to repay the county and repayment in the amount of $533,679 was received during 2012.

Since revenue in the funds statement is not recorded until it is available for expenditure, this amount was not recorded in 2011 and is recorded as revenue in 2012. There is no adjustment required for the government wide statements as the amount was recorded in 2011.

ISLAND COUNTY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2012

GENERAL FUND	Budget Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Budgetary Fund Balance, Jan 1, 2012	$ 145,753	$ 147,313	$ 8,862,831
Resources (Inflows)			
TAXES	13,030,500	13,030,500	13,567,568
LICENSES AND PERMITS	1,087,838	987,838	912,602
INTERGOVERNMENTAL REVENUES	2,682,118	2,878,920	2,971,068
CHARGES FOR GOODS AND SERVICES	1,967,048	1,967,048	1,945,974
FINES AND FORFEITS	606,700	606,700	570,875
MISCELLANEOUS REVENUES	311,957	522,157	673,763
OTHER FINANCING SOURCES	2,530,560	2,635,250	2,663,660
Total Resources (Inflows)	22,216,721	22,628,413	23,305,510
Amounts Available for Appropriation	22,362,474	22,775,726	32,168,341
Charges to Appropriations (Outflows)			
GENERAL GOVERNMENT SERVICES	10,488,771	10,615,078	10,154,683
SECURITY OF PERSONS AND PROPERTY	7,707,127	7,734,182	7,580,607
UTILITIES AND ENVIRONMENT	274,425	274,425	237,954
TRANSPORTATION	-	-	-
ECONOMIC ENVIRONMENT	1,841,795	1,841,795	1,670,136
MENTAL AND PHYSICAL HEALTH	-	-	-
CULTURE AND RECREATION	434,270	458,960	292,009
DEBT SERVICE	18,200	18,200	14,430
OTHER EXPENDITURES	260,985	260,985	121,268
OTHER FINANCING USES	1,186,654	1,421,854	1,414,578
Total Charges to Appropriations (Outflows)	22,212,227	22,625,479	21,485,665
Budgetary Fund Balance, Dec, 31, 2012	$ 150,247	$ 150,247	$ 10,682,676

COUNTY ROAD FUND	Budget Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Budgetary Fund Balance, Jan 1, 2012	$ -	$ -	$ 10,642,892
Resources (Inflows)			
TAXES	8,056,200	8,056,200	8,029,725
LICENSES AND PERMITS	80,800	80,800	76,724
INTERGOVERNMENTAL REVENUES	8,493,853	8,493,853	8,077,783
CHARGES FOR GOODS AND SERVICES	51,500	51,500	65,708
FINES AND FORFEITS	300	300	-
MISCELLANEOUS REVENUES	5,000	55,000	96,048
OTHER FINANCING SOURCES	140,000	140,000	210,454
Total Resources (Inflows)	16,827,653	16,877,653	16,556,442
Amounts Available for Appropriation	16,827,653	16,877,653	27,199,334
Charges to Appropriations (Outflows)			
GENERAL GOVERNMENT SERVICES			
SECURITY OF PERSONS AND PROPERTY			
UTILITIES AND ENVIRONMENT			
TRANSPORTATION	13,911,256	13,911,256	12,133,955
ECONOMIC ENVIRONMENT			
MENTAL AND PHYSICAL HEALTH			
CULTURE AND RECREATION			
DEBT SERVICE			
OTHER EXPENDITURES	550,000	550,000	58,195
OTHER FINANCING USES	2,334,567	2,384,567	1,711,216
Total Charges to Appropriations (Outflows)	16,795,823	16,845,823	13,903,366
Budgetary Fund Balance, Dec, 31, 2012	$ 31,830	$ 31,830	$ 13,295,968

ISLAND COUNTY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2012

Conservation Futures Fund	Budget Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Budgetary Fund Balance, Jan 1, 2012	$ -	$ 715,000	$ 1,511,173
Resources (Inflows)			
TAXES	667,000	667,000	672,437
LICENSES AND PERMITS	-	-	-
INTERGOVERNMENTAL REVENUES	-	1,371,250	1,195,145
CHARGES FOR GOODS AND SERVICES	-	-	-
FINES AND FORFEITS	-	-	-
MISCELLANEOUS REVENUES	22,080	223,830	38,395
OTHER FINANCING SOURCES	82,300	82,300	
Total Resources (Inflows)	771,380	2,344,380	1,905,977
Amounts Available for Appropriation	771,380	3,059,380	3,417,150
Charges to Appropriations (Outflows)			
GENERAL GOVERNMENT SERVICES	-	-	-
SECURITY OF PERSONS AND PROPERTY	-	-	-
UTILITIES AND ENVIRONMENT	-	-	-
TRANSPORTATION	-	-	-
ECONOMIC ENVIRONMENT	-	-	-
MENTAL AND PHYSICAL HEALTH	-	-	-
CULTURE AND RECREATION	6,744	6,744	91,989
DEBT SERVICE	-	-	-
OTHER EXPENDITURES	503,214	2,791,214	2,182,095
OTHER FINANCING USES	261,422	261,422	271,473
Total Charges to Appropriations (Outflows)	771,380	3,059,380	2,545,557
Budgetary Fund Balance, Dec, 31, 2012	$ -	$ -	$ 871,593

ISLAND COUNTY
OTHER POST EMPLOYMENT BENEFITS
LEOFF 1 RETIREMENT BENEFITS
For the Year Ended December 31, 2012

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2007	$ -	$ 3,382,972	$ 3,382,972	-	$ -	N/A
12/31/2008	$ -	$ 3,382,972	$ 3,382,972	-	$ -	N/A
12/31/2009	$ -	$ 2,875,479	$ 2,875,479	-	$ -	N/A
12/31/2010	$ -	$ 2,770,841	$ 2,770,841	-	$ -	N/A
12/31/2011	$ -	$ 2,889,092	$ 2,889,092	-	$ -	N/A
12/31/2012	$ -	$ 2,604,534	$ 2,604,534	-	$ -	N/A

See accompanying notes to required supplementary information schedules.

NOTE 1 – Excesses of Expenditures over Appropriations

The expenditures on a budgetary basis of all the major governmental funds presented in the Budgetary Comparison Schedule are less than the total amounts available for appropriation in that fund.

NOTE 2 – Budgetary Basis

In 2012, the County's budgetary basis is the modified accrual cash basis which includes any expenditures for 2011 that are paid after January 31, 2012 and all 2012 expenditures paid by January 31, 2013. Following are the adjustments for the budgetary basis of the major funds:

	General Fund	County Road Fund	Conservation Futures Fund
Fund Balance Budgetary Basis	$ 10,682,676	$ 13,295,968	$ 871,593
Less: 2012 Amounts paid after 01/31/2013	85,846	104,229	38,015
Fund Balance per Financial Statements	$ 10,596,830	$ 13,191,739	$ 833,578

The County approves budgets for each County Fund. In 2011, the county implemented GASB 54 for financial reporting which provided new definitions for fund types. Funds which do not meet the substantial revenue test for special revenue funds are included in the General Fund for financial reporting purposes. These funds, referred to as managerial funds, are budgeted separately however they are included in the budgetary basis of the General Fund. The total fund balance of the managerial funds included for financial reporting purposes is the $754,475.

NOTE 3 – Other Post Employment Benefits (OPEB)

The actuarial method used in the schedule of funding progress of Other Post Employee Benefits is disclosed in Notes to the Financial Statements Note 17.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-Note Ref.
U.S. Department of Agriculture / pass-through from WA State Superintendent of Public Instruction	School Breakfast Program	10.553	MOU	$ 4,172		$ 4,172	
	National School Lunch Program	10.555	MOU	$ 6,310		$ 6,310	
U.S. Department of Agriculture / pass-through from WA State Dept. of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C16886	$ 212,678		$ 212,678	
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C16886	$ 10,001		$ 10,001	
	WIC Farmers' Market Nutrition Program (FMNP)	10.572	C16886	165		165	
U.S. Department of Agriculture/ WA State Dept. of Agriculture	Rural Business Enterprise Grants	10.769	K 309	$ 19,500		$ 19,500	
U.S. Department of Agriculture Natural Resources Conservation Service	Farm and Ranch Lands Protection Program	10.913	RM-GSA-12-421		$ 736,000	$ 736,000	4
Department of Commerce NOAA / pass-through from WA State Dept. of Commerce	Coastal Zone Management Administration Awards	11.419	G10830003	14,821		14,821	
Department of Commerce - NOAA / pass-through from WA State Recreation and Conservation Office Salmon Recovery Board	Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program	11.438					
	Lead Entity - Salmon Recovery Program		11-1477P	38,067			
	National Estuary Program		09-1500N	28,604			
	Ala Spit Restoration		08-1864 R	24,376			
			Subtotal	91,047		91,047	
U.S. Department of Housing & Urban Development / pass-through from WA State Dept. of Commerce	Community Development Block Grant	14.228	12-65400-016	13,408		13,408	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-Note Ref.
U.S. Department of Justice Drug Enforcement Administration / pass-through from Washington State Patrol	Law Enforcement Assistance Narcotics and Dangerous Drugs-Laboratory Analysis	16.001	C110849FED	895		895	
U.S. Department of Justice - Bureau of Justice Assistance	Drug Court Discretionary Grant Program	16.585	2010-DC-BX-0047		14,275	14,275	
U.S. Department of Justice / pass-through from the Office of Crime Victims Advocacy	Violence Against Women Formula Grants	16.588	F09-31103-056 & F10-3103-142	24,602		24,602	
U.S. Department of Justice / Bureau of Justice Assistance	Bullet Proof Vest Partnership Program	16.607	ID04025006		1,911	1,911	
U.S. Department of Justice / pass-through from Washington Association of Sheriffs and Police Chiefs	Public Safety Partnership and Community Policing Grants	16.710	WSMI10104	17,264		17,264	
U.S. Department of Transportation / pass-through from WA State Dept. of Transportation	Highway Planning and Construction	20.205	LA-6590	983			
			LA-7350	51,602			
			LA-7003	58,377			
			LA-7002	12,684			
			LA-7470	93,082			
			LA-6115	76,850			
			LA-7635	427,532			
			Subtotal	721,111		721,111	
U.S. Department of Transportation / pass-through from Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	MOU	1,000			
U.S. Department of Transportation / pass-through from WA Law Enforcement Liaison (WTSC)			MOU	181			
			Subtotal	1,181		1,181	
U.S. Department of Transportation / pass-through from Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	MOU	2,538		2,538	
Environmental Protection Agency / pass-through from WA State Dept. of Health	Puget Sound Action Agenda - Technical Investigations and Implementation Assistance Program	66.123	2012-11-1S/C16886	27,114			
Environmental Protection Agency / pass-through from WA State Dept. of Natural Resources			2012-11-1S/C16886	54,437			
			Subtotal	81,551		81,551	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-Note Ref.
Environmental Protection Agency / pass-through from WA State Dept. of Ecology	National Estuary Program	66.456	G1200287	31,696		31,696	
Environmental Protection Agency / pass-through from WA State Dept. of Ecology	Nonpoint Source Implementation Grants	66.460	G1200280	25,670		25,670	
Environmental Protection Agency / pass-through from WA State Dept. of Ecology	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C16886	14,500		14,500	
Environmental Protection Agency / pass-through from Washington State University	Beach Monitoring and Notification Program Implementation Grants	66.472	C16886	9,066		9,066	
Department of Health and Human Services / pass-through from National Assoc. of County and City Health Officials	Medical Reserve Corps Small Grant Program	93.008	MRC-11441	5,000		5,000	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Social and Health Services	Public Health Emergency Preparedness	93.069	C16886	23,700		23,700	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	Immunization Grants	93.268	C14949	10,109			2
	FA 317 Immunizations		C16886	2,357			
	VFC OPC Immunizations		C16886	3,426			
	AFIX Immunizations		C16886	2,539			
			Subtotal	18,431		18,431	
U.S. Dept of Health and Human Services / pass-through from WA State Dept. of Health	PPHF 2012 National Public Health Improvement Initiative	93.507	C16886	10,044		10,044	
U.S. Dept of Health and Human Services / pass-through from WA State Dept. of Health	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	C16886	397		397	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Social and Health Services	Child Support Enforcement	93.563	75-1501-0-1-609	44,813			
			75-1501-0-1-609	53,722			
			Subtotal	98,535		98,535	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-Note Ref.**
Department of Health and Human Services / pass-through from Washington Secretary of State	Voting Access for Individuals with Disabilities Grants to States	93.617	G-12/176	42,695		42,695	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Social and Health Services	Medical Assistance Program	93.778					
	Medicaid Administrative Match		0963-53329	100,000			
	Child Prev Oral Health		1163-33933	9,500			
			Subtotal	109,500		109,500	
U.S. Department of Health and Human Services / pass-through from North Sound Mental Health Services Admin	Block Grants for Community Mental Health Services	93.958	FBG 11-12	16,682		16,682	
U.S. Department of Health and Human Services / pass-through from WA State Dept. of Social and Health Services	Block Grants for Prevention and Treatment of Substance Abuse - Federal Grant in Aid	93.959	1163-27304	164,544		164,544	
Department of Health and Human Services pass-through from WA State Dept. of Social and Health Services	Preventive Health and Health Services Block Grant	93.991	1063-95382	4,799		4,799	
	Maternal and Child Health Services Block Grant to the States	93.994	C16886	48,040		48,040	
Department of Homeland Security / pass-through from WA State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	2009-37	42,183		42,183	
Department of Homeland Security / pass-through from WA State Military Department	Emergency Management Performance Grants (EMPG)	97.042	E12-065	15,551		15,551	
	Homeland Security Grant Program	97.067	E11-093 / E10-206	151,177		151,177	3
Total Federal Awards Expended				$ 2,053,454	$ 752,186	$ 2,805,640	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the County's financial statements.
The County uses the modified accrual basis of accounting for all fund types except for the Proprietary fund types, which use the full accrual basis.

NOTE 2- NONCASH AWARDS - VACCINATIONS

The amount of vaccines reported on the schedule is the value of vaccines received by the County during the current year and priced based on Fair Market Value.

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIANTS

Included in the amount expended for this program is $ 34,608 that was passed through to Island County Fire Protection District No. 1 and $47,404.25 that was passed through to ICOM that administered their own projects.

NOTE 4 - AWARDS - REAL PROPERTY

The County received conservation easements to real property partially purchased with Federal Department of Agriculture dollars by the Whidbey Camano Land Trust and Island County. The amount reported on the schedule is the total amount of federal awards for the projects which the County was a party.

ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

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

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

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
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