Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

Island County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012716

Washington State Auditor
Troy Kelley

September 29, 2014

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 KELLEY

STATE AUDITOR

TABLE OF CONTENTS

Federal Summary

Island County
January 1, 2013 through December 31, 2013

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 identified 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 each of its major federal programs.

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 were major programs during the period under audit:

CFDA No.	Program Title
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction
66.123	Puget Sound Action Agenda: Technical Investigations on Implementation Assistance Program

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

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

Schedule of Audit Findings and Responses

Island County
January 1, 2013 through December 31, 2013

1. The County should improve its internal controls over financial reporting to ensure accurate reporting.

Background

It is the responsibility of County management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified deficiencies in internal controls over financial reporting that could affect the County's ability to produce reliable financial statements.

Description of Condition

We identified the following significant deficiencies in internal controls over financial reporting:

- The County did not adequately research or seek technical guidance on how to appropriately record a non-routine transaction on the financial statements.
- Although the County has procedures in place to perform a final review of the prepared financial statements and notes prior to audit, the review was not effective in detecting significant errors.

Cause of Condition

The County experienced turnover in the positions primarily responsible for the creation of the financial statements and has not dedicated the necessary time, resources and oversight to ensure accurate financial reporting.

Effect of Condition

The County did not have audit ready financial statements until 44 days after the statutory deadline. The County's financial statements contained significant misstatements that were not detected by management. We identified the following errors in the financial statements received for audit:

The County over-reported the following:

- Landfill postclosure liability by $1,106,640 and landfill post closure expense by $379,624. The County also failed to report the required note disclosure related to change in liabilities.

- Net position invested in capital assets by $3,721,670.

- Misclassified the following:
    - County Road restricted fund balance as committed by $13,925,323.
    - Fiduciary custodial accounts as accounts payable by $40,560,066.

The County corrected all of the above errors.

During our audit, we also noted other errors in the financial statements and notes that individually were not significant but when taken together impair the understandability of the financial report. The errors required us to perform additional audit procedures to ensure correct reporting.

These deficiencies in internal controls make it reasonably possible that additional misstatements could continue to occur and not be prevented or detected by the County in the future.

Recommendation

We recommend the County:

- Provide adequate training to staff responsible for financial accounting and reporting, and adequately research and seek technical guidance for transactions to ensure compliance with reporting requirements.

- Establish an effective review process of the financial statements by a person knowledgeable of GAAP and Budgeting, Accounting and Reporting Systems (BARS) reporting requirements to ensure accurate preparation and reporting of the County's financial statements.

County's Response

Island County appreciates the efforts, assistance, and recommendations of the State Auditor's Office. Island County strives for financial reports that are both transparent and accurate. Island County is committed to ongoing quality improvement and will provide adequate staff training, and seek technical guidance to ensure accurate and timely preparation, review and reporting of the financial statements.

Auditor's Remarks

We appreciate the County's commitment to resolve the finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during the next audit.

Applicable Laws and Regulations

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines material weakness and significant deficiency as follows:

> a. Material weakness:
>
> A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
>
> b. Significant deficiency:
>
> 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.

Government Auditing Standards, July 2007 Revision – Section 5.11, provides that auditors should report significant deficiencies and material weaknesses in internal control.

RCW 43.09.200, Local government accounting -- Uniform system of accounting**,** states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.
>
> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230, Local government accounting -- Annual reports -- Comparative statistics, states:

> The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.
>
> Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.
>
> The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement; together with such other information as may be required by the state auditor.
>
> The reports shall be certified as to their correctness by the state auditor, the state auditor's deputies, or other person legally authorized to make such certification.
>
> Their substance shall be published in an annual volume of comparative statistics at the expense of the state as a public document.

Budget Accounting and Reporting System (BARS) Manual – Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section C, Internal control, states in part:

> <u>Controls over Financial Reporting</u>
>
> This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.
>
> In meeting this objective, the government should have controls that accomplish the following key functions:
>
> - Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.

- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.

- Correctly accounting for all financial events – Controls should ensure that:

    - Only valid transactions are recorded and reported.

    - All transactions occurred during the period are recorded and reported.

    - Transactions are recorded and reported at properly valued and calculated amounts.

    - Recorded and reported transactions accurately reflect legal rights and obligations.

    - Transactions are recorded and reported in the account and fund to which they apply.

- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules in accordance with the stated basis of accounting.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

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, 2013 through December 31, 2013

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, 2013, 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 18, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the County implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 1 that we consider to be significant deficiencies.

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*.

COUNTY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 18, 2014

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, 2013 through December 31, 2013

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, 2013. 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, 2013.

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 18, 2014

Independent Auditor's Report on Financial Statements

Island County
January 1, 2013 through December 31, 2013

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2013, 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 2013, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 20 through 34, budgetary comparison information on page 78 and information on postemployment benefits other than pensions on pages 79 through 80 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 18, 2014 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 18, 2014

Financial Section

Island County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Island County's Financial Statements presents a narrative overview and analysis of the County's financial activities for the calendar year ending December 31, 2013. We encourage readers to consider the information presented here in conjunction with the additional information contained in the County's Financial Statements, and the related notes.

FINANCIAL HIGHLIGHTS

The global financial crisis has affected every corner of the world, and over the past decade the U. S. economy has suffered the largest economic downturn since the Great Depression. Island County has not been shielded from this crisis. As a result, the County has experienced declining revenues in the recent past, but economic growth over the last year shows a very modest but slow recovery.

Island County has been faced with significant financial challenges in its quest for financial sustainability. The County Commissioners have taken a proactive approach implementing drastic cost saving measures to streamline operations while maintaining service levels within the Community. The number one priority is to be efficient and effective in delivering County services to the citizens of Island County. Over the last several years, staff has made compensation concessions, including furloughs, benefit reductions, salary freezes and staffing levels were significantly reduced and administration was streamlined.

The Commissioners efforts are evident in this year's financial highlights. Fund Balances are increasing, and the County's Net Position is gaining, all of which positions the County to address a multitude of unfunded liabilities and capital needs. However, despite current year gains, revenues have not increased significantly, which is an indication that the County should plan conservatively. Strategic financial planning continues as the County's financial position improves, ensuring financial sustainability for Island County in the years to come.

- The County's cumulative Governmental Fund Balances increased by $2.5 million (6.4%) to $42.4 million compared to $39.9 million for the prior year.
- The County's total Net Position on December 31, 2013, was $162.9 million compared to $153.9 million on December 31, 2012. This represents an overall increase of $8.9 million (5.8%) and reflects an increase of $7.6 million in Governmental Activities and an increase of $1.2 million in Business-type Activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of three components: (1) Government-wide Financial Statements; (2) Fund Financial Statements; and (3) Notes to the Basic Financial Statements.

The Government-wide Financial Statements provide a long-term view of all the County's activities, including all the capital assets and long-term liabilities.

The Fund Financial Statements report the County's operations in detail and the focus is primarily on the short–term activities of the County's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues, expenditures, fund balance, and exclude capital assets, and long-term liabilities.

The Notes to the Basic Financial Statements provide more details to the specific components of the County's operations.

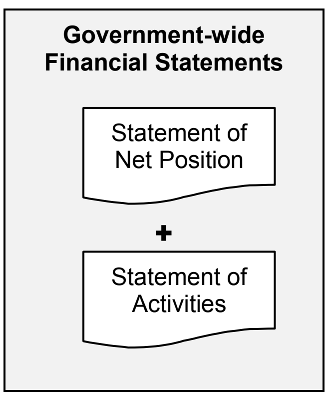
The diagram below outlines the major features of both the Government-wide and Fund Financial Statements.

	Government-wide Financial Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Entity	The day to day operating activities of the County for Governmental Services	The day to day operating activities of the County, for Business-type enterprises
Basis of Accounting	Accrual	Modified Accrual	Accrual
Accounting Method	All Revenues and Expenses are recorded, regardless of when the Cash transactions occur	Revenue is recorded when Cash is received, Expenditures are recorded when services or supplies have been received and the liability is due and payable	All Revenues and Expenses are recorded, regardless of when the Cash transactions occur
Measurement Focus	All Economic Resources	Current Financial Resources	All Economic Resources
Type of Asset and Liability Information	All Assets, Capital, Short and Long-term Liabilities	Current Assets and Liabilities due during the year or soon thereafter	All Assets, Capital, Short and Long-term Liabilities

Government-wide Financial Statements

The Government-wide Financial Statements consist of the following two financial statements:

1) Statement of Net Position; and 2) Statement of Activities. Both are designed to provide readers a broad overview of the County's financial activities and position, in a manner similar to the financial statements for a private-sector company.



The ***Statement of Net Position*** presents information on all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of an improving or deteriorating financial position.

The ***Statement of Activities*** presents information on the changes to Net Position that occurred during the reporting period. All changes to Net Position are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for items that may only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes, and expenses pertaining to earned but unused vacation and sick leave.

Both of the Government-wide Financial Statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*Business-type Activities*). The *Governmental Activities* of the County include General Government, Public Safety, Utilities and Environment, Transportation, Economic Environment, Mental and Physical Health, Culture and Recreation.

Fund Financial Statements

The Fund Financial Statements are designed to report information about groups of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives in accordance with special regulations, restrictions, or limitations. A fund is a separate accounting entity with a self-balancing set of accounts. The County, like other State and Local Governments, utilizes fund accounting to ensure and demonstrate finance related legal compliance. All of the funds within the County can be divided into the following three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Fund

A separate accounting entity with a self-balancing set of accounts

Fund Categories

Governmental Funds
Proprietary Funds
Fiduciary Funds

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as Governmental Activities in the Government-wide Financial Statements. Most of the County's basic services are reported in Governmental Funds. However, unlike the Government-wide Financial Statements, the Governmental Fund Financial Statements focus on the near-term inflow and outflows of resources, as well as on the balances of resources available at the end of the calendar year. This information may be useful in evaluating the County's near-term financing requirements.

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance, provide detailed information on Major Funds. The concept and the determination of Major Funds were established by criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, (GASB 34)" and represent the major activities of the County for the year. Major Funds include: the General Fund, County Road and the Solid Waste Fund. Major Funds are presented individually, while the activities of Non-Major Funds are presented in summary. Major Funds may change from year to year as a result of changes in the County's activities.

The focus of the Governmental Fund Financial Statements is narrower than that of the Government-wide Financial Statements; therefore it is useful to compare the information presented for Governmental Funds with similar information presented for Governmental Activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities.

The County adopts an annual appropriated budget, and a budgetary comparison schedule has been provided to demonstrate compliance with the budget.

Proprietary Funds

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

Enterprise Funds

Enterprise Funds are utilized to report the same functions presented as Business-type Activities in the Government-wide Financial Statements. Enterprise Funds are supported by fees paid by users based on the amount of service received. The County utilizes Enterprise Funds for the following:

Solid Waste Management	To account for the administration, operation, capital improvements and debt service of the County Solid Waste Facilities
Park Facility Management	To account for the administration, operation, maintenance and capital improvements of County owned parks 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 Service 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 / Revolving Fund	To account for the operation, maintenance and inventory of equipment and road construction materials.
Insurance Reserve	To account for the resources, claims, and payment of Insurance premiums
Motor Pool Fund	To account for purchase, maintenance, and tracking of County owned vehicles.

Fiduciary Funds

Fiduciary Funds are generally used to account for financial resources held for the benefit of other governments or parties. The County holds these funds in a custodial capacity or trustee. Fiduciary funds are not reflected in the Government-wide Financial Statements because the resources of the funds are not available to support the County's governmental activities.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provides additional information that is essential to fully understand the data presented in the Government-wide and Fund Financial statements.

Required Supplemental Information

This section contains the Budget versus Actual Statements for the General Fund and the County Road Fund.

Other Information

In addition to the Financial Statements and accompanying notes, this section presents the combining statements and schedules for Non-Major Governmental Funds, Special Revenue Funds, Debt Service Funds, and the Internal Service Funds.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

Analysis of Net Position

As noted earlier, Net Position may serve over time as a useful indicator of the County's financial position.

As shown on the next table, the County's Net Position was $162.9 million on December 31, 2013, compared to the prior year of $153.9 on December 31, 2012. This represents a 5.8% increase. Net Position increased by approximately $7.6 million in governmental activities; while those from business-type activities increased by $1.2 million.

GOVERNMENT-WIDE FINANCIAL ANALYSIS
NET POSITION
December 31, 2013

	Governmental Activities		Businsess-type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and Other Assets	53,563,677	48,391,002	6,692,686	6,446,241	60,256,363	54,837,243
Capital Assets	117,210,679	114,995,855	4,746,871	4,861,091	121,957,550	119,856,946
TOTAL ASSETS	**170,774,356**	**163,386,857**	**11,439,557**	**11,307,332**	**182,213,913**	**174,694,189**
LIABILITIES						
Other Liabilities	3,290,935	3,294,491	371,732	347,067	3,662,667	3,641,558
Non-Current Liabilities	13,756,220	14,054,232	1,888,526	3,013,311	15,644,746	17,067,543
TOTAL LIABILITIES	**17,047,155**	**17,348,723**	**2,260,258**	**3,360,378**	**19,307,413**	**20,709,101**
NET POSITION						
Investment in Capital Assets	109,120,186	106,135,362	4,746,871	4,861,091	113,867,057	110,996,453
Restricted	34,339,589	30,143,444			34,339,589	30,143,444
Unrestricted	10,267,426	9,759,328	4,432,428	3,085,863	14,699,854	12,845,191
TOTAL NET POSITION	**153,727,201**	**146,038,134**	**9,179,299**	**7,946,954**	**162,906,500**	**153,985,088**

The largest portion of the County's net position reflects its $113.8 million (69.9%) investment in capital assets (e.g. land, buildings, and equipment); less any related outstanding debt used to acquire those assets. This is an increase of $2.8 million over prior year end balance of $110.9 million and reflects the Barnum Point Property acquisition of $2.1 million. The County utilizes capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although, the County's investment in capital assets is reported net of related debt, it should be noted the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be liquidated to pay those liabilities.

The restricted portion of Net Position is $34.3 million (21.1%) and represents resources that are subject to external restrictions as to how they may be utilized. On December 31, 2013, the County had positive balances in all the categories used to calculate Net Position for both the Governmental and Business-type Activities.

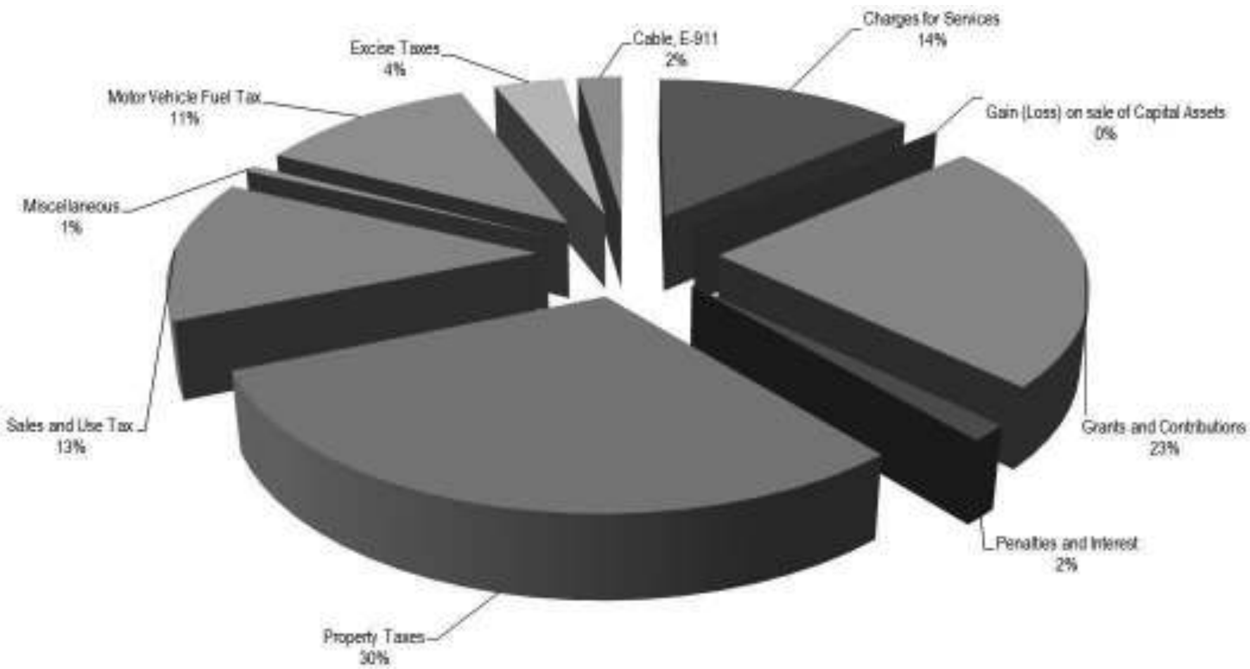
GOVERNMENT-WIDE FINANCIAL ANALYSIS
CHANGE IN NET POSITION
December 31, 2013

	Governmental Activities		Businsess-type Activities		Total	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program Revenue						
Charges for Services	7,714,499	7,804,143	6,039,386	5,767,825	13,753,885	13,571,968
Operating Grants & Contributions	9,827,862	6,185,538	215,374	116,846	10,043,236	6,302,384
Capital Grants & Contributions	3,321,182	5,028,509			3,321,182	5,028,509
Total Program Revenue	20,863,543	19,018,190	6,254,760	5,884,671	27,118,303	24,902,861
General Revenue						
Property Taxes	16,842,686	16,346,365			16,842,686	16,346,365
Sales / Use Taxes	7,371,812	6,885,653			7,371,812	6,885,653
MVFT / Excise	8,515,058	7,954,420			8,515,058	7,954,420
Penalties and Interest	852,480	1,746,047	3,918	5,142	856,398	1,751,189
Other	1,694,807	1,733,365			1,694,807	1,733,365
Total General Revenue	35,276,843	34,665,850	3,918	5,142	35,280,761	34,670,992
TOTAL REVENUES	**56,140,386**	**53,684,040**	**6,258,678**	**5,889,813**	**62,399,064**	**59,573,853**
EXPENSES						
General Government	8,839,028	8,383,263			8,839,028	8,383,263
Judicial	3,138,358	3,116,320			3,138,358	3,116,320
Public Safety	10,819,763	10,168,878			10,819,763	10,168,878
Physical Environment	950,643	1,359,620	4,655,419	5,472,085	5,606,062	6,831,705
Transportation	14,053,993	11,398,767			14,053,993	11,398,767
Health and Human Services	4,944,746	3,903,816			4,944,746	3,903,816
Economic Environment	3,786,454	2,883,262			3,786,454	2,883,262
Culture and Recreation	1,823,209	1,108,264	54,531	46,949	1,877,740	1,155,213
Interest on Long-Term Debt	411,508	451,696			411,508	451,696
TOTAL EXPENSES	**48,767,702**	**42,773,886**	**4,709,950**	**5,519,034**	**53,477,652**	**48,292,920**
Excess Before Transfers	7,372,684	10,910,154	1,548,728	370,779	8,921,412	11,280,933
Transfers In (Out)	316,383	302,487	-316,383	-302,487		
CHANGE IN NET POSTION	7,689,067	11,212,641	1,232,345	68,292	8,921,412	11,280,933
Net Position, January 1,	146,038,134	134,825,493	7,946,954	7,878,662	153,985,088	142,704,155
NET POSITION, DECEMBER 31,	**153,727,201**	**146,038,134**	**9,179,299**	**7,946,954**	**162,906,500**	**153,985,088**

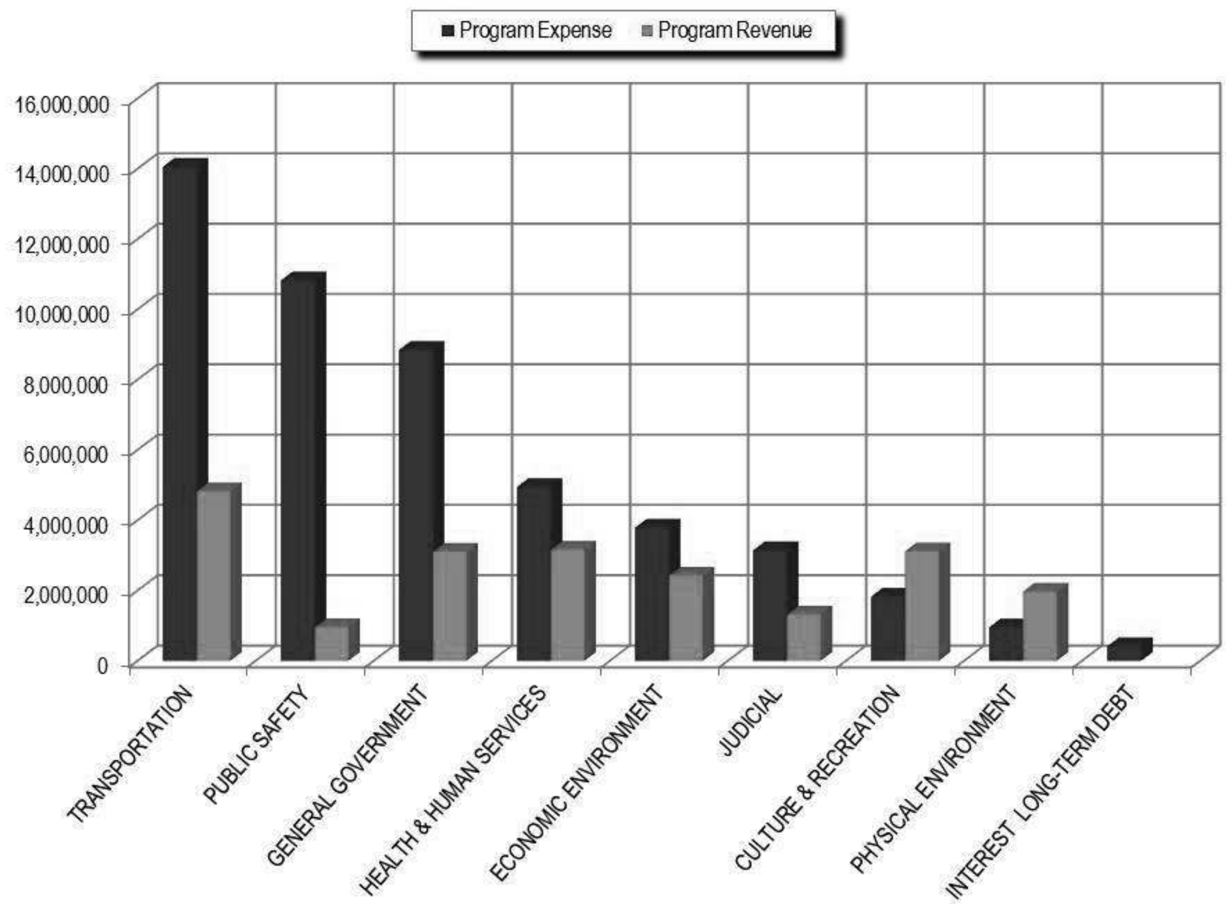
Analysis of the Changes in Net Position

As shown on the table above revenue increased overall by $2.8 Million (4.7%) and expenses increased overall by $5.1 Million (10.7%).

Governmental Activities
REVENUES BY SOURCE



Governmental Activities
PROGRAM EXPENSES AND PROGRAM REVENUES



Governmental Activities increased the County's total Net Position by $7.6 million to $153.7 million during 2013, compared to the increase of $11.2 million during 2012. Key factors contributing to the variance from the prior year are listed below:

Overall, Governmental Activity revenue increased by $2.4 Million in the following categories:

Revenue Increases:

$1.9 million increase in Grant revenue

$ 496 thousand in Property Tax revenue

$ 486 thousand in Sales/Use Tax revenue

$ 560 thousand in Motor Vehicle Fuel and Excise Tax

Revenue Decreases:

$ 894 thousand in Penalties/Interest

$ 89 thousand in Charges for Services

$ 36 thousand in Cable, E-911

Overall, Governmental Activity expenses increased by $5.9 Million in the following categories:

Expenditure Increases:

$2.6 million increase in Transportation

$1.0 million increase in Health and Human Services

$ 903 thousand increase in Economic Environment

$ 714 thousand in Culture and Recreation

$ 650 thousand in Public Safety

$ 455 thousand in General Government

Expenditure Decreases:

$ 409 thousand in Physical Environment

The charts shown previously illustrate the County's Governmental Revenues by Source and Governmental Expenses and Revenues by Program. General Revenues such as Property Taxes; Sales / Use Tax; Motor Vehicle Fuel Tax; Excise Tax; and Penalties and Interest are not shown by program, but they are used to support program activities countywide. For Governmental Activities, Property Taxes were the largest single source of revenue at thirty percent (30%); followed by Sales and Use Tax with thirteen percent (13.1%); Motor Vehicle Fuel Tax at eleven percent (11.5%); Excise Tax at four percent (3.6%); Cable, E-911 at two percent (2.3%) and Penalties and Interest with two percent (1.52%)

As shown, Transportation has the largest program expenses at twenty nine percent (28.8%); followed by Public Safety at twenty two percent (22.1%); General Government at eighteen percent (18.2%); Health and Human Services at ten percent (10.1%); Economic Environment at eight percent (7.7%); Judicial at six percent (6.4%); Culture and Recreation at four percent (3.7%); and Physical Environment at two percent (1.9%).

Business-type Activities
PROGRAM EXPENSES AND PROGRAM REVENUES

Business-type Activities increased the County's total Net Position by $1.2 million to $9.1 million during 2013, compared to the increase of $68 thousand during 2012. Key factors contributing to the increase from the prior year are as follows:

- Overall, revenues exceeded expenditures by $1.5 million, although this includes the book entry reduction of $1.1 million in expense due to the reassessment and update of the County Sanitary Landfill Post-closure financial assurance plan. (see Note 18)
- Business-type Activities revenue increased by $369 thousand, and actual expenses increased by $290 thousand compared to those in the prior year, (excluding the $1.1 million reduction in expense for the reassessment and update of the County Sanitary Landfill Post-closure – see Note 18)
- Solid Waste charges for service revenue increased by $247 thousand (4.3%) due to the increasing activity at the transfer stations. Actual expenses within Solid Waste had an overall increase of $290 due in part to the one-time cost of drilling four (4) new wells.

The chart above illustrates the County's Business-type Activities Expenses and Revenues by Program. As shown, Solid Waste has the largest program expenses at nine-nine percent (99.0%); followed by Park Facility Management with one percent (0.9%).

General Revenues such as Investment Earnings are not shown by Program, but are used to support Business-type activities. For Business-type Activities, Investment Earnings were four thousand dollars ($3,918) dollars which is a decrease of $689 dollars from earning received in 2012. The major factor for this variance is the current economic investment environment.

GOVERNMENTAL AND PROPRIETARY FUND ANALYSIS

As noted earlier, the County utilizes fund accounting to ensure and demonstrate legal compliance and to aid financial management by segregating transactions related to specific governmental activities, functions or objectives.

Governmental Funds

The focus of the County's Governmental Funds Statement is to provide information on near-term inflows, outflows, and balance of resources available. This type of information is useful in assessing the County's financing requirements. In particular, Unrestricted Fund Balance may serve as a useful measure of the County's net resources available at the end of the calendar year. The types of Governmental Funds reported by the County include the General Funds, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

On December 31, 2013, the County's Governmental Funds reported a combined ending Fund Balance of $42.4 million, an increase of $2.5 million (6.36%) over the prior year ending balance of $39.9 million.

Comparative Analysis of Changes in Governmental Fund Balances

The following table presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net change in fund balance for Governmental Funds at December 31, 2013 and the previous year end of December 31, 2012.

Governmental Funds

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balance		Ending Fund Balances	
	2013	2012	2013	2012	2013	2012	2013	2012
Governmental Funds	23,069,740	23,305,510	22,916,811	21,469,816	152,929	1,835,694	10,749,759	10,596,830
County Road Fund	16,944,127	16,556,442	16,210,543	13,979,960	733,584	2,576,482	13,925,323	13,191,739
Special Revenue Funds	17,518,709	16,830,795	15,868,441	15,455,149	1,650,268	1,375,646	17,767,395	16,117,127
Total	57,532,576	56,692,747	54,995,795	50,904,925	2,536,781	5,787,822	42,442,477	39,905,696

The Fund Balance for Governmental Funds was $10.7 million, showing an increase of $153 thousand dollars over the prior year end balance of $10.6 million. The County Road Fund was $13.9 million, showing an increase of $734 thousand over the prior year end balance of $13.2 million. Special Revenue Funds had a combined ending Fund Balance of $17.8 million, an increase of $1.6 million over the prior year ending balance of $16.1 million.

The following table provides a comparison of the General Fund Revenues and Expenditures and year-end balance on December 31, 2013, and the prior year end balance on December 31, 2012.

Comparative Analysis of Changes in the General Fund Balance

The General Fund is the chief operating fund of the County and the following table presents the detailed revenues, program expenditures, other financing sources and uses, and the net change in Fund Balance at year end 2013 and the previous year end, 2012. The following table represents only the General Fund and not the additional managerial funds that are presented in the Financial Statements.

GENERAL FUND
REVENUE AND EXPENDITURE COMPARISON

	General Fund 2013	General Fund 2012	Dollar Variance	Percentage Variance
REVENUES				
Property Taxes	7,420,727	7,183,786	236,941	3.30%
Property Penalty & Interest	1,290,057	1,087,076	202,981	18.67%
Sales / Use Taxes	5,079,288	4,631,539	447,749	9.67%
Excise Taxes	663,862	665,167	-1,305	-0.20%
Permits / Licenses	1,016,583	896,582	120,001	13.38%
State Revenue	1,358,471	1,215,556	142,915	11.76%
Grant Revenue	1,082,637	1,163,778	-81,141	-6.97%
Intergovernmental	436,628	607,458	-170,830	-28.12%
Fees	1,700,331	1,698,458	1,873	0.11%
Fines	536,792	570,875	-34,083	-5.97%
Interest	-556,680	405,394	-962,074	-237.32%
Other / Misc	95,552	103,092	-7,540	-7.31%
TOTAL REVENUES	20,124,248	20,228,761	-104,513	-0.52%
EXPENDITURES				
General Government	7,631,005	6,924,576	706,429	10.20%
Judicial	2,801,032	2,742,552	58,480	2.13%
Public Safety	8,426,750	7,615,877	810,873	10.65%
Physical Environment	160,786	193,607	-32,821	-16.95%
Economic Environment	1,779,304	1,670,915	108,389	6.49%
Culture and Recreation	206,014	200,089	5,925	2.96%
Capital Outlay	303,711	121,268	182,443	150.45%
Debt Service	4,889	14,430	-9,541	-66.12%
TOTAL EXPENDITURES	21,313,491	19,483,314	1,830,177	9.39%
OTHER FINANCING SOURCES (USES)				
Transfers In	2,380,096	2,418,660	-38,564	-1.59%
Transfers (Out)	-1,188,184	-1,410,176	221,992	-15.74%
TOTAL OTHER FINANCING SOURCES (USES	1,191,912	1,008,484	183,428	18.19%
NET CHANGE	2,669	1,753,931		
Net Position, January 1,	9,842,354	8,088,423		
NET POSITION, DECEMBER 31,	9,845,023	9,842,354	2,669	

As shown on the table above the General Fund had an ending Fund Balance of $9.845 million, which reflects increase of $2,669 thousand dollars over the prior year ending balance of $9.842 million.

As a measure of the General Fund's liquidity, it may be useful to compare both the Total Fund Balance and the Unassigned Fund Balance to Total Fund Expenditures (total expenditures plus other financing uses). The following table represents only the General Fund and not the additional managerial funds that are presented in the Financial Statements.

GENERAL FUND EXPENDITURES
FUND BALANCE COMPARISON

	General Fund 2013	General Fund 2012
Fund Balance Classification		
Restricted	112,436	97,983
Committed	104,913	95,864
Assigned	2,206,025	2,205,009
Unassigned	7,421,650	7,443,500
Total Fund Balance	9,845,024	9,842,356
Expenses	22,501,675	20,893,490
Total Fund Balance	9,845,024	9,842,356
PERCENTAGE	**43.75%**	**47.11%**
Expenses	22,501,675	20,893,490
Unassigned Fund Balance	7,421,650	7,443,500
PERCENTAGE	**32.98%**	**35.63%**

On December 31, 2013, the General Fund Restricted Fund Balance was $112 thousand and represents $74 thousand for Boating Safety, $37 thousand for Court Facilitator; and $1 thousand for animal control; the General Fund Committed Fund Balance was $105 thousand and represents $91 thousand for technology, and $14 thousand for parks; the General Fund Assigned Fund Balance was $2,206 million and represents $2.2 million for contingency and $6 thousand for drug court; and the General Fund Unassigned Fund Balance was $7.4 million.

General Fund Budgetary Revenue and Expenditure Changes

There is a variance between the final amended total General Fund revenue budget of $23 million, which included a fund balance reserve transfer of $1.2 million that was not transferred, and increases in taxes, licenses and permits. The un-spent expenditure budget of $500 thousand, reflects savings of $160 thousand in salary and benefits, $300 thousand in capital, and $39 thousand in services and supplies.

GENERAL FUND BUDGET TO ACTUAL

	Budget	Actual
Revenues	23,002,059	22,504,344
Expenditures	23,002,059	22,501,675

Proprietary Funds

The County's Proprietary Fund Statements provide the same type of information found in the Government-wide Financial Statements under *Business-type Activities* column, but include more detail.

The following table shows actual revenues, expenses and the results of the operations for the calendar year 2013.

PROPRIETARY FUNDS

December 31, 2013

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expenses)	Transfers In (Out)	Change in Net Position
Solid Waste	5,996,473	4,675,355	1,321,118	219,293	(315,283)	1,225,128
Four Springs Lake Preserve	42,913	54,531	(11,618)	0	(1,100)	(12,718)
Internal Service Funds	4,023,276	4,033,017	(9,741)	46,391	48,783	85,433
TOTAL	**10,062,662**	**8,762,903**	**1,299,759**	**265,684**	**(267,600)**	**1,297,843**

On December 31, 2013, total Net Position for Solid Waste was $7.9 million, an increase of $1.2 million (18.3%) over the prior year balance of $6.7 million. The increase largely represents the book entry reduction of $1.1 million in expense due to the reassessment and update of the County Sanitary Landfill Post-closure financial assurance plan. (see Note 18); Four Springs Lake Preserve total Net Position was $1.13 million a decrease of $13 thousand (-1.11%) over the prior year balance of $1.14 million; Internal Service Funds total Net Position was $11.3 million an increase of $85 thousand (0.76%) over the prior year balance of $11.2 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital Assets include land, buildings and improvements, furniture, fixtures and equipment, automobiles, trucks, and infrastructure. Capital Assets for Governmental and Business-type Activities are presented below.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

December 31, 2013

	Governmental Activities		Business-type Activities		TOTAL	
	2013	2012	2013	2012	2013	2012
Land	22,052,886	20,492,886	1,067,537	1,067,537	23,120,423	21,560,423
Construction in Progress	6,011,985	2,860,516			6,011,985	2,860,516
Intangible (Right of Way)	5,297,673	4,681,324			5,297,673	4,681,324
Buildings	20,226,316	20,941,152	1,258,779	1,316,809	21,485,095	22,257,961
Intangible (Software)	671,366	1,009,448	32,503	38,412	703,869	1,047,860
Improvements (Other Than Buildings)	2,169,041	2,348,481	1,757,180	1,915,607	3,926,221	4,264,088
Machinery & Equipment	5,311,528	5,167,669	630,872	522,726	5,942,400	5,690,395
Infrastructure	55,469,884	57,494,379			55,469,884	57,494,379
TOTAL	**117,210,679**	**114,995,855**	**4,746,871**	**4,861,091**	**121,957,550**	**119,856,946**

The investment in total capital assets for both the Governmental and Business-type Activities as of December 31, 2013, increased by $2.1 million (1.7%) to $122 million (net of accumulated depreciation).

The County depreciates Capital Assets utilizing the straight-line depreciation method. The cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

Major outlays for Capital Assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Additional information on the County's Capital Assets can be found in Note 6 of this report.

Debt Administration

The County debt obligations are in the form of Limited Tax General Obligation Bonds (GOB), and State Revolving Funds. The following table summarizes the outstanding long-term debt at December 31, 2013 for Island County.

LONG-TERM LIABILITIES

	2013	2012
2005 Limited Tax General Improvement Refunding Bonds	3,125,000	3,830,000
2010 Limited Tax General Improvement Refunding Bonds	5,085,000	5,150,000
State Water Quality Assistance (L1000014)	99,990	132,463
State Water Quality Assistance (L0700005)	66,850	110,807
State Water Quality Assistance (L0600020)	67,779	135,220
State Water Quality Assistance (L1100002)	325,159	250,184
State Water Quality Assistance (L0000013)	304,971	340,593
TOTAL	**9,074,749**	**9,949,267**

As of December 31, 2013, the outstanding long-term debt was $9.1 million. During the year $705 thousand debt was retired on the 2005 GOB bonds; $65 thousand was retired on the 2010 GOB bonds; and $179,493 was retired on State Water Quality Assistance Loans. An addition $74,975 was awarded on the State Water Quality Assistance Loan L1100002, and principle payments for that loan do not start until 2016.

Additional information about the County's long-term obligations can be found in Note 12 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Washington State 2013 paints a different picture than that of the previous 6 years of continuous economic decline. Washington continues to expand at a moderate pace and has enjoyed economic stability in several sectors including transportation manufacturing with commercial aviation and commercial trucking providing increases in employment, sales and exports. Single-family construction is showing a pause, but not a slowdown. Regional home prices continue to climb; in the Seattle area home prices have increased in each of the last 19 months, and as of September were 13.2% higher than in the previous September. Although, home prices and mortgage rates have increased, homes are still relatively affordable. It is predicted the Washington economy will continue to outperform the U.S. economy by a narrow margin. Employment opportunities offered by Microsoft, Amazon and Boeing continue to lead 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 slight gains in local property tax and sales and use tax. The local real estate and housing market, both in sales of existing homes and new construction starts, remain low. Although real estate interest rates have climbed over the last year, they still remain at historic lows, but qualifying requirements ramped up by lenders after the predatory lending and foreclosure onslaught of the previous 4-5 years, have affected sales. For those able to qualify, 2013 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 7.2% in December 2013 (not seasonally adjusted), which is down about 0.7% from December 2012.

The largest employers in Island County are Government entities, and comprised of the Naval Air Station Whidbey Island (NASWI), Island County, school districts and cities/towns. 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, and in-coming aviation squadrons, there were still some reductions in staffing of some squadrons.

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 2013 data is unavailable at this time. We include 2011 economic impact of personnel reduction for historical perspective of NASWI value to the 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 appears to continue to stabilize and is experiencing modest, diverse increases.

Island County remains a preferred location for retirees seeking a more relaxed lifestyle. Affordable property in a moderate climate and low crime rate makes 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 continues to see stabilization and the number of foreclosures declining from the previous five years. A modest increase in sales and sale prices resulted in an uptick in Island County real estate excise taxes and fees in 2013. 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 2014. Revenue from new custom construction remains dramatically lower than pre-2007 timeframe, but continued to grow in 2013. Inventory growth is slowing and home sales prices are increasing; and are expected to offer continued growth in 2014. Property valuations for 2013 reflected a slight increase in some property types, as evidenced by the 2013 property tax evaluation statements.

The year 2013 continued to appear to be a turning point for the local economy: 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 2014

The County's financial status and budget outlook are continuously monitored, as the County continues to face significant fiscal challenges. These include:

- Labor, Health Care and Pension costs continue to increase;
- Aging infrastructure and unfunded capital needs;
- Funding the outstanding liability for Compensated Absences; and
- Funding the outstanding Other Post Employment Benefit (OPEB) liabilities

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Island County finances. We hope the proceeding information has provided a general overview of the County's overall financial status. Requests for additional information, and questions or comments regarding this report should be addressed to:

Island County
Auditor's Office
Attn: Sheilah Crider
PO Box 5000
Coupeville, WA 98239-5000

ISLAND COUNTY, WASHINGTON

STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Pooled Investments	$ 42,233,164	$ 4,238,381	$ 46,471,545
Taxes Receivable	1,045,772		1,045,772
Other Receivables, Net	1,309,793	471,627	1,781,420
Internal Balances	(127,033)	127,033	
Due From Other Governments	6,762,263	105,865	6,868,128
Inventories	462,631		462,631
Prepaid Items	402,897		402,897
Deferred Charges	516,797		516,797
Note Receivable - Current Portion	131,793		131,793
Restricted Assets - Cash Surplus Invested		1,749,780	1,749,780
Investments Of Surplus Cash At Fair Value			-
Note Receivable - Noncurrent Portion	825,600		825,600
Capital Assets - Not Being Depreciated			
Land	22,052,886	1,067,537	23,120,423
Construction In Progress	6,011,985		6,011,985
Capital Assets - Net Of Accumulated Depreciation			
Buildings and Other Improvements	22,395,359	3,015,959	25,411,318
Machinery and Equipment	5,311,526	630,872	5,942,398
Infrastructure	55,469,884		55,469,884
Intangibles	5,969,039	32,503	6,001,542
Total Capital Assets	117,210,679	4,746,871	121,957,550
TOTAL ASSETS	170,774,356	11,439,557	182,213,913
LIABILITIES			
Accounts Payable	1,613,613	273,373	1,886,986
Other Current Liabilities	1,490,084	72,416	1,562,500
Due To Other Governments	61,663	12,281	73,944
Deferred Revenue			
Accrued Liabilities - Current Portion	125,575	13,662	139,237
Non-Current Liabilities			
Payable From Restricted Assets		1,749,780	1,749,780
Accrued Liabilities	4,506,998	138,746	4,645,744
Due Within One Year	1,066,566		1,066,566
Bond Premium	174,473		174,473
Due In More Than One Year	8,008,183		8,008,183
TOTAL LIABILITIES	17,047,155	2,260,258	19,307,413
NET POSITION			
Net Investment In Capital Assets	109,120,186	4,746,871	113,867,057
Restricted For:			
General Government	4,170,028		4,170,028
Public Safety	189,410		189,410
Culture And Recreation	1,087,543		1,087,543
Economic Environment	4,386,671		4,386,671
Mental And Physical Health	2,284,862		2,284,862
Road And Streets	15,130,482		15,130,482
Capital Projects	5,695,205		5,695,205
Other Purposes	510		510
Physical Environment	1,394,878		1,394,878
Unrestricted	10,267,426	4,432,428	14,699,854
TOTAL NET POSITION	$ 153,727,201	$ 9,179,299	$ 162,906,500

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, 2013

FUNCTIONS OF THE PRIMARY GOVERNMENT	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
					PRIMARY GOVERNMENT		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES							
General Government	$ 8,839,028	$ 1,374,526	$ 1,701,923	$ 26,889	$ (5,735,690)	$	$ (5,735,690)
Judicial	3,138,358	942,171	375,248		(1,820,939)		(1,820,939)
Public Safety	10,819,763	123,134	831,330		(9,865,299)		(9,865,299)
Physical Environment	950,643	1,324,957	640,865		1,015,179		1,015,179
Transportation	14,053,993	727,478	2,858,128	1,234,293	(9,234,094)		(9,234,094)
Health and Human Services	4,944,746	808,702	2,355,974		(1,780,070)		(1,780,070)
Economic Environment	3,786,454	2,004,167	420,829		(1,361,458)		(1,361,458)
Culture and Recreation	1,823,209	409,364	643,565	2,060,000	1,289,720		1,289,720
Interest On Long-Term Debt	411,508				(411,508)		(411,508)
TOTAL GOVERNMENTAL ACTIVITIES	48,767,702	7,714,499	9,827,862	3,321,182	(27,904,159)		(27,904,159)
BUSINESS-TYPE ACTIVITIES							
Solid Waste	4,655,419	5,996,473	215,374			1,556,428	1,556,428
Park Facility Management	54,531	42,913				(11,618)	(11,618)
TOTAL BUSINESS-TYPE ACTIVITIES	4,709,950	6,039,386	215,374			1,544,810	1,544,810
TOTAL PRIMARY GOVERNMENT	$ 53,477,652	$ 13,753,885	$ 10,043,236	$ 3,321,182	$ (27,904,159)	$ 1,544,810	$ (26,359,349)

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
General Revenues			
Taxes			
Property Taxes Levied for General Purpose	7,568,832		7,568,832
Property Taxes Levied for Roads	8,154,511		8,154,511
Property Taxes Levied for Specific Purpose	1,119,343		1,119,343
Sales and Use Tax	7,371,812		7,371,812
Motor Vehicle Fuel Tax	6,458,313		6,458,313
Excise Taxes	2,056,745		2,056,745
Miscellaneous	348,875		348,875
Penalties and Interest	852,480	3,918	856,398
Cable, E-911	1,297,468		1,297,468
Gain (Loss) on Sale of Capital Assets	48,464		48,464
Transfers	316,383	(316,383)	
Total General Revenues and Transfers	35,593,226	(312,465)	35,280,761
Change in Net Position	7,689,067	1,232,345	8,921,412
Net Position - Beginning of Year	146,038,134	7,946,954	153,985,088
NET POSITION, END OF YEAR	$ 153,727,201	$ 9,179,299	$ 162,906,500

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

ISLAND COUNTY, WASHINGTON

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	GENERAL FUND	COUNTY ROAD FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Pooled Investments	$ 9,926,391	$ 12,820,508	$ 17,199,766	$ 39,946,665
Taxes Receivable	548,724	367,820	129,228	1,045,772
Other Receivables, Net	780,993	139	261,876	1,043,008
Due From Other Funds	14,818		845,335	860,153
Interfund Loans Receivable				-
Due From Other Governments	1,474,587	3,957,523	1,962,813	7,394,923
TOTAL ASSETS	12,745,513	17,145,990	20,399,018	50,290,521
LIABILITIES				
Accounts Payable	696,855	288,490	549,392	1,534,737
Due To Other Funds	-	-	860,153	860,153
Interfund Loans Payable				-
Due To Other Governments	42	2	61,535	61,579
Accrued Liabilities	723,445	206,972	394,401	1,324,818
TOTAL LIABILITIES	1,420,342	495,464	1,865,481	3,781,287
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Tax	545,820	300,778	117,894	964,492
Unavailable Revenue - Grants	29,592	2,424,425	374,152	2,828,169
Unavailable Revenue - Other			274,096	274,096
TOTAL DEFERRED INFLOWS OF RESOURCES	575,412	2,725,203	766,142	4,066,757
FUND BALANCES (DEFICITS)				
Nonspendable	-	-	-	-
Restricted	259,847	13,149,464	14,976,243	28,385,554
Committed	161,548	2,660	551,689	715,897
Assigned	2,881,441	773,199	2,178,299	5,832,939
Unassigned	7,446,923	-	61,164	7,508,087
TOTAL FUND BALANCES	10,749,759	13,925,323	17,767,395	42,442,477
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)	$ 12,745,513	$ 17,145,990	$ 20,399,018	$ 50,290,521

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

DECEMBER 31, 2013

Total Fund Balances as shown on the Governmental Funds Balance Sheet	$ 42,442,477
Capital Assets used in Governmental Activities are not financial resources, therefore are not reported in the Funds	104,605,854
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, therefore are not reported in the Funds	(9,249,222)
Other Assets are not available to pay current expenditures, such as property taxes and notes receivables, therefore are not reported in the Funds.	5,102,582
Internal Service Funds are used by the County to charge the costs of insurance, equipment, and motor pool to individual Funds. The assets and liabilities of the Internal Service Funds are included in the Governmental Activities in the Statement of Net Position.	11,175,000
Other Liabilities such as Compensated Absences that are not due and payable in the current period, are not reported in the Funds.	(4,506,990)
Net Position of Governmental Activities	$ 153,727,201

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, 2013

	GENERAL FUND	COUNTY ROAD FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	$ 14,453,934	$ 8,245,593	$ 6,478,264	$ 29,177,791
Licenses and Permits	1,044,191	80,821	511,357	1,636,369
Intergovernmental Revenue	2,851,502	8,225,338	4,264,220	15,341,060
Charges for Services	2,049,993	375,064	3,502,375	5,927,432
Fines and Forfeits	536,792		3,771	540,563
Interest and Investment Earnings	(556,663)		118,996	(437,667)
Miscellaneous	209,895	1,593	115,044	326,532
TOTAL REVENUES	20,589,644	16,928,409	14,994,027	52,512,080
EXPENDITURES				
CURRENT				
General Government	7,982,550		408,144	8,390,694
Judicial	2,801,032		337,326	3,138,358
Public Safety	8,426,750		1,894,558	10,321,308
Utilities and Environment	186,047		1,899,830	2,085,877
Transportation		7,970,888	323,690	8,294,578
Economic Environment	1,779,304		1,926,423	3,705,727
Mental and Physical Health			4,887,686	4,887,686
Culture and Recreation	216,185		1,148,005	1,364,190
DEBT SERVICE				
Principal			949,493	949,493
Interest	4,889		370,064	374,953
CAPITAL OUTLAY	330,970	5,961,449	660,102	6,952,521
TOTAL EXPENDITURES	21,727,727	13,932,337	14,805,321	50,465,385
Excess (Deficiency) of Revenues Over Expenditures	(1,138,083)	2,996,072	188,706	2,046,695
OTHER FINANCING SOURCES (USES)				
Proceeds of Long Term Debt			79,975	79,975
Other Nonrevenues - Insurance Recovery		13,645	126,793	140,438
Disposition of Capital Assets		2,073		2,073
Transfers In	2,480,096		2,317,914	4,798,010
Transfers (Out)	(1,189,084)	(2,278,206)	(1,063,120)	(4,530,410)
TOTAL OTHER SOURCES (USES)	1,291,012	(2,262,488)	1,461,562	490,086
NET CHANGE IN FUND BALANCES	152,929	733,584	1,650,268	2,536,781
Fund Balances, At Beginning of Year As Previously Reported	10,596,830	13,191,739	16,117,127	39,905,696
Prior Period Adjustment				
Fund Balances, At Beginning of Year Restated	10,596,830	13,191,739	16,117,127	39,905,696
FUND BALANCES, END OF YEAR	$ 10,749,759	$ 13,925,323	$ 17,767,395	$ 42,442,477

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, 2013

Net Change in Fund Balances for Governmental Funds	$ 2,536,781
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 and reported as depreciation expense.	2,302,416
Proceeds of notes receivable provide current resources to Governmental Funds but decrease assets in the Statement of Net Position.	(49,763)
Debt proceeds provide current financial resources to Governmental Funds but debt increases long-term liabilities in the Statement of Net Position	(74,975)
The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayments of principal on long-term debt are expenditures in Governmental Funds. Neither transaction has any effect on Net Position. Governmental Funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas those amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of those differences in the treatment of long-term debt and related items.	952,949
Internal Service Funds are used by the County to charge the costs of 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.	65,497
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.	1,956,162
Changes in Net Position of Governmental Activities on the Statement of Activities	$ 7,689,067

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, 2013

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS				
Current Assets				
Cash and Pooled Investments	$ 4,234,401	$ 3,980	$ 4,238,381	$ 2,286,499
Due From Other Funds				
Other Receivables, Net	465,277	6,350	471,627	72,491
Due From Other Governments	105,865		105,865	
Inventories				462,631
Prepaid Items				402,897
Total Current Assets	4,805,543	10,330	4,815,873	3,224,518
Noncurrent Assets				
Restricted Assets - Cash	1,749,780		1,749,780	
Capital Assets - Net Of Accumulated Depreciation				
Land	559,890	507,647	1,067,537	781,692
Buildings and Other Improvements	2,388,791	627,168	3,015,959	2,775,338
Machinery and Equipment	630,872		630,872	4,890,295
Intangible Assets	32,503		32,503	
Total Non-Current Assets	5,361,836	1,134,815	6,496,651	8,447,325
TOTAL ASSETS	10,167,379	1,145,145	11,312,524	11,671,843
LIABILITIES				
Current Liabilities				
Accounts Payable	271,702	1,671	273,373	78,876
Due To Other Funds				
Due To Other Governments	12,264	17	12,281	84
Accrued Wages	71,360	1,056	72,416	25,321
Other Current Liabilities				237,600
Total Current Liabilities	355,326	2,744	358,070	341,881
Noncurrent Liabilities				
Payable From Restricted Assets	1,749,780		1,749,780	
Compensated Absences	144,660	7,748	152,408	27,929
Total Noncurrent Liabilities	1,894,440	7,748	1,902,188	27,929
TOTAL LIABILITIES	2,249,766	10,492	2,260,258	369,810
NET POSITION				
Net Investment In Capital Assets	3,612,056	1,134,815	4,746,871	8,447,325
Unrestricted	4,305,557	(162)	4,305,395	2,854,708
TOTAL NET POSITION	$ 7,917,613	$ 1,134,653	9,052,266	$ 11,302,033
Adjustments reflect consolidation of Internal Service Fund activities related to Enterprise Fund			127,033	
NET POSITION OF BUSINESS-TYPE ACTIVITIES			$ 9,179,299	

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

ISLAND COUNTY, WASHINGTON

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUE				
Charges For Services	$ 5,996,473	$	$ 5,996,473	$ 853,171
Equipment and Space Rents		42,913	42,913	2,059,968
Sales of Merchandise				1,110,137
Total Operating Revenues	5,996,473	42,913	6,039,386	4,023,276
OPERATING EXPENSES				
Wages and Benefits	1,514,113	23,789	1,537,902	575,675
Maintenance and Operation	3,564,395	13,916	3,578,311	2,555,282
Landfill Post Closure Costs	(727,016)		(727,016)	
Depreciation and Amortization	323,863	16,826	340,689	902,060
Total Operating Expenses	4,675,355	54,531	4,729,886	4,033,017
NET OPERATING INCOME (LOSS)	1,321,118	(11,618)	1,309,500	(9,741)
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	3,919		3,919	
Interest Expense				
Operating Grants	215,374		215,374	
Miscellaneous Income (Expense)				
Disposition of Capital Assets				46,391
Total Non-Operating Income	219,293	-	219,293	46,391
Net Income Before Transfers	1,540,411	(11,618)	1,528,793	36,650
Transfers In				220,083
Transfers Out	(315,283)	(1,100)	(316,383)	(171,300)
CHANGE IN NET POSITION	1,225,128	(12,718)	1,212,410	85,433
Total Net Position - Beginning	6,692,485	1,147,372		11,216,600
Total Net Position - Ending	$ 7,917,613	$ 1,134,654		$ 11,302,033
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds			19,936	
CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES			$ 1,232,346	

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, 2013

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Operations	$ 5,907,521	$ 42,913	$ 5,950,434	$ 3,991,659
Payments For Wages and Benefits	(1,538,784)	(23,120)	(1,561,904)	(548,740)
Payments To Suppliers For Goods and Services	(3,289,384)	(11,024)	(3,300,408)	(2,750,162)
Payments For Landfill Closure Costs	(379,624)		(379,624)	
Internal Activity - Payments To Other Funds	(256,493)	(2,221)	(258,714)	
Net Cash Provided (Used) By Operating Activities	443,236	6,548	449,784	692,757
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating Grants	109,510	(6,350)	103,160	
Transfer Cash From Restricted Cash Assets	1,106,640		1,106,640	
Transfers	(315,283)	(1,553)	(316,836)	167,634
Net Cash Provided (Used) By Non-Capital Financing Activities	900,867	(7,903)	892,964	167,634
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases Of Capital Assets	(234,400)		(234,400)	(773,511)
Cash Received From Sale Of Capital Assets	7,930		7,930	5,433
Net Cash Used For Capital and Related Financing Activities	(226,470)		(226,470)	(768,078)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest On Investments	3,919		3,919	
Net Cash Provided By Investing Activities	3,919		3,919	
Net Increase (Decrease) In Cash and Cash Equivalents	1,121,552	(1,355)	1,120,197	92,313
Cash and Cash Equivalents At Beginning of Year	3,112,849	5,335	3,118,184	2,194,186
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,234,401	3,980	4,238,381	2,286,499
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	1,321,118	(11,618)	1,309,500	(9,741)
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities				
Depreciation and Amortization	323,863	16,826	340,689	902,060
Change In IBNR				(79,271)
Changes In Assets and Liabilities				
Accounts Receivable, Net	(88,952)		(88,952)	(31,617)
Inventory				(59,961)
Accounts Payable	30,954	833	31,787	(49,449)
Compensated Absences	(24,671)	507	(24,164)	26,935
Other Operating Assets	(1,104)		(1,104)	(6,199)
Landfill Liability	(1,106,640)		(1,106,640)	
Interfund Activity	(11,332)		(11,332)	
Total Adjustments	(877,882)	18,166	(859,716)	702,498
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 443,236	$ 6,548	$ 449,784	$ 692,757

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, 2013

	AGENCY FUNDS
ASSETS	
Cash	$ 19,977,035
Investments, At Fair Value	22,694,151
Taxes Receivable	3,990,000
Other Receivables, Net	4,946
Due From Other Governments	
TOTAL ASSETS	46,666,132
LIABILITIES	
Accounts Payable	6,106,066
Custodial Accounts	40,560,066
TOTAL LIABILITIES	$ 46,666,132

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.

In addition, during 2013, Island County implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

A. Reporting Entity

Incorporated on January 6, 1853, Island County operates under the laws of the State of Washington applicable to Category 1 Counties with a Commissioner form of government. As required by the GAAP the financial statements present Island County – the primary government.

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

B. Government-wide and Fund Financial Statements

Government-wide 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. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between *governmental* and *business-type* activities. Governmental activities generally are supported through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Interfund services provided and used are not eliminated in the process of consolidation.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities, and each segment of the County's business-type activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges to customers and applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including taxes are reported as general revenues.

Fund Financial Statements: The Fund Financial Statements provide information about the County's funds, including blended component units. Separate statements for each fund category - *governmental and proprietary* – are presented. The emphasis of Fund Financial Statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The County reports the following functions:

- General Government: Legislative and administrative services, including judicial, recording, elections, financial services, personnel administration, risk management, and facility management.
- Public Safety: Protection and safety of the citizens at large, including law and regulatory enforcement, prevention and emergency services, inspections, detention, corrections, and juvenile services.
- Utilities and Environment: Programs that improve the physical environment of the community for the citizens of Island County including natural resources, water, solid waste, drainage and animal control.
- Transportation: Programs to ensure the safe and adequate flow of vehicles and pedestrians within Island County, including road and street construction, maintenance and preservation.
- Economic Environment: Programs that improve the welfare of the community and individuals of Island County, including community development, planning and housing.
- Mental and Physical Health: Programs that provide prevention, intervention and rehabilitative human services for the citizens of Island County with an emphasis on serving those most in need. This includes 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 Island 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. Those amounts have been eliminated in the Government-wide Financial Statements. Capital transfers are recorded for the fund's share of the capital expenditure. Other operating transfers are transactions in which assets are moved without compensation or requirement for repayment. Those amounts have been eliminated within the Governmental Activities and Business-type Activity 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, Proprietary, and Fiduciary Fund Financial Statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Under this method, revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. 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*. Under this method, revenues are recognized as soon as they are both *measurable* and *available*. Revenues are considered 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 including property taxes to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. 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 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 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 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 Island County's operating fund. This fund 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 and all activity is reported as the General Fund.
- County Road Fund: This fund is utilized to account for the construction, maintenance and preservation of county roads and streets, and the design and coordination of countywide public works projects. The fund was established in accordance with RCW 36.33.220. Revenue is primarily derived from road and other taxes and Federal and State grants.

The County reports the following major proprietary fund:

- Solid Waste Fund: This fund is utilized to account for the operations, capital improvements and debt service of the County Solid Waste Facilities. Revenue originates from the collection of fees at the facilities.

Island 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 position) is 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 position. 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 utilized to account for services for which the County charges customers, or internal departments or agencies. Island County maintains the following two types of Proprietary Funds:

<u>Enterprise Funds</u> – 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 improvements of County-owned parks and habitat conservation areas.

<u>Internal Service Funds</u> – 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 cash and other assets held by Island County acting in the capacity of trustee or custodian on behalf of other governments and other funds.

D. <u>Budgetary Information</u>

1. <u>Scope of Budget</u>

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 2013 and January 2014, plus 2012 expenditures paid after January 31, 2013. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project each calendar year.

Annual appropriated budgets are adopted at the Fund level except in the General Fund, where the level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the Department level. Subsidiary revenue and expenditure ledgers are utilized 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 twenty thousand dollars ($20,000) within a Fund for the respective Department's budget.

The Budget Comparison Schedule displays the original and final budget information for both the General Fund (and all the additional managerial funds that are presented in the Financial Statements) and the County Road Fund. 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 calendar year.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Pool Investments

Cash and pool investments include cash on hand, demand deposits, short and long-term investments. All funds not required for immediate expenditure are invested. On December 31, 2013, the Treasurer reported long-term investments of $62,796,035 for Island County, and $22,894,150 for public entities required to deposit funds with the County Treasury.

Long-term investment interest is allocated to the various funds based on cash held in each fund on December 31, 2013. The interest on investments for all fiduciary, trust, and agency funds are credited to the General Fund. The interest for government funds, without resolutions directing investments, is recorded in 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.

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.

On December 31, 2013, there were no outstanding interfund loans. A separate schedule of interfund balances and transfers is provided in Note 15.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The costs are recorded as expenditures 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 $1,749,780, set aside for the landfill closure and post-closure costs, including maintenance, monitoring equipment and facilities. The amount is also shown as a liability payable from restricted assets. The $1,749,780 reflects the reduction of $1,106,640 due to the reassessment and update of the County Sanitary Landfill Post-closure financial assurance plan from the prior year amount of $2,856,420 (see Note 18)

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 business-type activities is also capitalized. 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 $3,386,966 and other post-employment benefits (OPEB) payable of $1,272,441. Compensated absences are leave accruals for which employees will be paid, such as earned compensated 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 include the accumulation of vacation and sick leave. At retirement or termination, employees receive a cash payment for their accumulated vacation leave in accordance with their contract, or up to a maximum of 240 hours, and fifty percent (50%) of sick leave accumulated up to a maximum of 960 hours. The payment is calculated on the current wages at retirement or termination. Other post-employment benefits payable are disclosed in Note 17.

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s); therefore, it will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, *deferred* *inflows of resources,* represents an acquisition of net position that applies to a future period(s); therefore, it will *not* be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the fund financial statements include delinquent taxes, grants and court judgments that are earned, but not yet available under the modified accrual basis of accounting. At the government-wide level, the deferred inflows are converted to assets under the accrual basis of accounting.

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, which required the County to classify its fund balances based on the spending constraints imposed on the use of resources. There are five Fund Balance classifications: Nonspendable; Restricted; Committed; Assigned; and Unassigned. For programs with multiple funding sources, the County prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned.

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

Restricted Fund Balance: This represents the portion of fund balance that has external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation, which requires the resources to be utilized only for a specific purpose.

Committed Fund Balance: This represents the portion of fund balance with constraints imposed by formal action of the Board of Commissioners, by resolution and remain binding unless removed in the same manner.

Assigned Fund Balance: This represents the portion of fund balance with constraints by the County's intent to be utilized for a specific purpose, but does 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: This represents the residual amount of fund balance that has not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

12. Fund Balance Details

The table on the following page provides the specific purpose of Island County's fund balance classifications as of December 31, 2013.

13. Minimum Fund Balance

Island County adopted a Financial Management Policy in 2011 to establish, and maintain sound financial planning objectives and strategies. The policy formalized existing practices and the fiscal planning provides guidelines for evaluating current activities and future programs. The policy states that all County funds will strive to maintain a 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, 2013, all funds had total fund balances in excess of two months revenue except the Public Health Fund, Alcohol and Substance Abuse Fund, Human Services Administration 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 $27 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 $7 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.

FUND BALANCE CLASSIFICATIONS

Fund Balances:	**General Fund**	**County Road Fund**	**Nonmajor Governmental Funds**	**Total**
Restricted for:				
Law and Justice	$ 123,806		$ 174,270	$ 298,076
Economic Development			4,496,895	4,496,895
Health and Human Services			3,823,793	3,823,793
Capital Projects	119,088		5,894,090	6,013,178
Transportation		13,149,464		13,149,464
Other Purposes	1,540		587,195	588,735
Utilities and Environment	15,413		-	15,413
Committed to:				
Parks and Recreation	70,975		518,457	589,432
Transportation		2,660		2,660
Other Purposes / Tech Fee	90,573		33,232	123,805
Assigned to:				
Contingency	2,200,000			2,200,000
Other Purposes	68,451		23,147	91,598
Parks and Recreation	4,077		958,870	962,947
Law and Justice	6,024		555,158	561,182
Election Services	602,889		-	602,889
Transportation		773,199	154,193	927,392
Economic Development			-	-
Health and Human Services			461,675	461,675
Utilities and Environment			15,358	15,358
Education			-	-
Capital Projects			9,898	9,898
Unassigned	7,446,923		61,164	7,508,087
	$ 10,749,759	$ 13,925,323	$ 17,767,395	$ 42,442,477

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 therefore are not reported in the funds.

Balance of Capital Assets at beginning of year		$ 102,303,438
Assets acquired during 2013		5,634,749
Less Current year asset disposition		(96,012)
Less Current year depreciation expense		(3,236,321)
	Total	$ 104,650,854

2. Capital Assets acquired through donation of property value are not financial resources therefore are not reported in the funds.

	Total	$ 4,157,500

3. Long-term debts not due and payable in the current period are not reported in the funds.

Balance of long-term debt at beginning of year		$ (10,144,716)
Current year principal payments		952,949
Current year loan proceeds		(74,975)
Current year amortization of bond premium		17,520
	Total	$ (9,249,222)

4. Other Assets not available to pay current expenditures, such as property taxes and notes receivables are not reported in the funds.

Property tax receivable at end of year		$ 967,396
District Court receivables not available to finance expenditures		519,027
Note receivable balance water quality assistance at end of year		259,733
Debt refunding and issuance costs		491,849
Grant revenue receivable at end of year		2,810,022
Assets held for resale		24,948
Other Receivables		29,607
	Total	$ 5,102,582

5. Internal Service Funds are utilized to account for the costs of services or supplies provided to individual funds, such as insurance, equipment, and motor pool. The assets and liabilities of those funds are included in Governmental Activities in the Statement of Net Position.

Net Position: Insurance Reserve applicable to Governmental Funds		$ 1,127,496
Net Position: Motor Pool applicable to Governmental Funds		583,235
Net Position: Equipment Rental/Revolving applicable to Governmental Funds		9,464,269
	Total	$ 11,175,000

6. Other Liabilities such as Compensated Absences, Other Post-Employment Benefits and Interest that are not due and payable in the current period are not reported in the funds.

Compensated Absences payable at year end		$ (3,206,629)
Other Post-Employment Benefits payable at year end		(1,272,441)
Interest due on long-term debt and other payables at year-end		(27,920)
	Total	$ (4,506,990)

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 expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful life and reported as depreciation expense.

Assets acquired during 2013		$	5,634,750
Less Current year depreciation expense			(3,236,322)
Less Current year assets disposition			(96,012)
	Total		2,302,416

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		$	(124,738)
Notes Receivable amounts issued			74,975
	Total	$	(49,763)

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	Total	$	(74,975)

4. General Obligation Bond and long-term note payments are expenditures in Governmental Funds, but those payments reduce long-term liabilities in the Statement of Net Position.

General Obligation Bond payments		$	770,000
Capital Lease payments			3,456
Other Debt principal payments			179,493
	Total	$	952,949

5. Internal Service Funds are utilized to account for the costs of services or supplies provided to individual funds, such as insurance, equipment, and motor pool. The net costs of the Internal Service Funds are included in the Governmental Activities in the Statement of Activities.

Net Position Change: Insurance Reserve applicable to Governmental Funds		$	258,976
Net Position Change: Motor Pool applicable to Governmental Funds			60,845
Net Position Change: Equip Rental/Revolving applicable to Governmental Funds			(254,324)
	Total	$	65,497

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

Compensated Absences not available to finance expenditures		$	52,065
Interest due on long-term debt and other payables			(40,011)
Property tax levy not recognized as revenue			112,506
Other Post-Employment benefits payable not requiring resources			(218,689)
Revenue receivable not available to finance expenditures			2,050,291
	Total	$	1,956,162

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

All funds except Law Library Fund, Human Services Fund and Natural Resources Fund have a positive fund balance. The deficit fund balance of $3,409 in the Law Library Fund as of December 31, 2013 recovered in 2014. The deficit fund balance of $32,402 in the Human Services Fund as of December 31, 2013, recovered in 2014. The Natural Resources Fund had a deficit of $23,705 at December 31, 2013 and has deferred revenues of $78,561, which will cover the deficit.

The 2013 annual budget was adopted on the modified accrual cash basis, which includes 2013 expenditures paid in 2013 and in January 2014 and 2012 expenditures paid after January 31, 2013. For the year ended December 31, 2013, expenditures exceeded appropriations in the following funds:

- County Law Library Fund $387 - The fund received 2013 invoices in January 2014 not included in budget amendments.
- Human Services Fund $1,967 - 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 $6,027 - The fund received 2013 invoices after year-end that were not included in the budget amendment. The over expenditure was funded by available fund balance.
- Enhanced 911 Fund $67,918 - The fund received 2013 invoices in January 2014 not included in budget amendments. The over expenditure was funded by a revenue budget surplus.
- Extension Services $25,914 – The fund received 2013 invoices in January 2014 not included in budget amendments. The over expenditure was funded by available fund balance.

NOTE 4 - DEPOSITS AND INVESTMENTS

As required by law, all deposits and investments of Island County funds are obligations of the U.S. Government, U.S. Agency Issues, the State Treasurer's Investment Pool (LGIP), 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.

Island 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 Statement No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires adjustments be made to the financial statements to reflect the difference between amortized cost and fair value of investments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of investments has been determined using quoted market prices, which are equivalent to market value. Island County investments are shown on the balance sheet at fair value and unrealized gain or loss is recognized based on the market value as of December 31, 2013. The fair value as of December 31, 2013 was $1,004,584 below the amortized cost of the investments. The investments of fiduciary funds are also reported at fair value on the Statement of Fiduciary Net Position.

Following are the details of investments as of December 31, 2013:

Investment	Maturities	Island County Investments Fair Value	Island County as Fiscal Agent Fair Value	Total Investments
State investment pool	$ -	$ 2,073,275	$ 22,114,150	$ 24,187,425
U.S. Agencies	60,595,000	59,626,823	-	59,626,823
Certificates of Deposit	1,875,000	1,095,937	780,000	1,875,937
Total Investments	**$ 62,470,000**	**$ 62,796,035**	**$ 22,894,150**	**$ 85,690,185**

NOTE 5 – PROPERTY TAXES

The Island 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 unavailable 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. For 2013, the total was $.65404 on an assessment valuation of $12.06 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 2013 was $.82822 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 2013, the county levied an additional $.05737 per $1,000 for Conservation Futures.

Island County levied the following property taxes on the 2013 Levy for 2014 collection.

Purpose of Levy	Levy Rate per $1,000	Total Levy Amount
General Government	$ .65404	$ 7,888,708
Total General Government	.65404	$ 7,888,708
Conservation Futures	.05737	692,012
Road Levy	.82822	8,268,727
Total	$ 1.53963	$ 16,849,447

NOTE 6 – CAPITAL ASSETS

A. CAPITAL ASSETS Capital asset activity for the year ended December 31, 2013 comprises:

Governmental Activities	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets not being depreciated:				
Land	20,492,886	1,560,000		22,052,886
Construction in progress	2,860,516	3,208,981	(57,512)	6,011,985
Intangible Assets	4,681,324	616,349		5,297,673
Total capital assets not being depreciated	**28,034,726**	**5,385,330**	**(57,512)**	**33,362,544**
Capital assets being depreciated:				
Buildings	36,322,034		(6,178)	36,315,856
Intangible Assets	2,630,016	36,158	(20,465)	2,645,709
Improvements other than buildings	5,361,584			5,361,584
Machinery and equipment	17,623,927	993,515	(663,415)	17,954,027
Infrastructure	76,512,272	38,384		76,550,656
Total capital assets being depreciated	**138,449,833**	**1,068,057**	**(690,058)**	**138,827,832**
Less accumulated depreciation for:				
Buildings	(15,380,882)	(708,782)	124	(16,089,540)
Intangible Assets	(1,620,568)	(338,269)	(15,506)	(1,974,343)
Improvements other than buildings	(3,013,103)	(179,440)		(3,192,543)
Machinery and equipment	(12,456,258)	(838,524)	652,283	(12,642,499)
Infrastructure	(19,017,893)	(2,073,368)	10,489	(21,080,772)
Total accumulated depreciation	**(51,488,704)**	**(4,138,383)**	**647,390**	**(54,979,697)**
Net capital assets being depreciated	**86,961,129**	**(3,070,326)**	**(42,668)**	**83,848,135**
Governmental activities capital assets, net	**114,995,855**	**2,315,004**	**(100,180)**	**117,210,679**

Business-Type Activities	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
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:				
Buildings	2,455,737			2,455,737
Intangible Assets	59,096			59,096
Improvements other than buildings	4,782,274	57,146	(7,930)	4,831,490
Machinery and equipment	2,245,682	177,252	(399,621)	2,023,313
Total capital assets being depreciated	**9,542,789**	**234,398**	**(407,551)**	**9,369,635**
Less accumulated depreciation for:				
Buildings	(1,138,928)	(58,030)		(1,196,958)
Intangible Assets	(20,684)	(5,909)		(26,593)
Improvements other than buildings	(2,866,667)	(207,643)		(3,074,310)
Machinery and equipment	(1,722,956)	(69,107)	399,622	(1,392,441)
Total accumulated depreciation	**(5,749,235)**	**(340,689)**	**399,622**	**(5,690,302)**
Net capital assets being depreciated	**3,793,554**	**(106,291)**	**(7,929)**	**3,679,334**
Business-type activities capital assets, net	**4,861,091**	**(106,291)**	**(7,929)**	**4,746,871**

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

Governmental Activities		Amount
General Government	$	496,116
Public Safety		306,290
Physical Environment		5,939
Transportation		2,179,207
Economic Environment		56,703
Health and Human Services		48,833
Culture and Recreation		143,235
Internal Service Funs		902,060
Total Depreciation and Amortization– Governmental Activities	$	4,138,383

Business-Type Activities		Amount
Solid Waste	$	323,863
Four Springs Lake Preserve		16,826
Total Depreciation and Amortization – Business-Type Activities	$	340,689

B Collections Not Capitalized

The County has no collections that are not capitalized as of December 31, 2013.

C. Construction Commitments

The County has active construction projects as of December 31, 2013. At year-end, the government's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Various Road Projects	$ 1,424,443	$ 992,106
New County Road	$ 562,710	$ 97,290
Freeland Trail	$ 186,368	$ 9,832

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 50*, Pension Disclosures, an Amendment of GASB Statements 25 and 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; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

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

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

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

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

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

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

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

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

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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

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.

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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012[1]:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate

[1] GASB Statement 27 does not require the number of participating employers and members to be presented in the notes to the financial statements. The information has been provided here so it can be included in the notes if desired.

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.

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, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% 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*	11.71%	11.71%	11.71%**
Employer: Local Government Units*	9.21%	9.21%	9.21%**
Employee: State Agency	9.76%	9.80%	7.50%***
Employee: Local Government	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** 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
2013	$ 34,918	$ 1,065,860	$ 177,771
2012	$ 31,853	$ 909,588	$ 158,015
2011	$ 35,180	$ 761,903	$ 132,474

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 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 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 2013, 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, in lieu of any retirement benefit, 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 there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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 benefit 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 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.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012[2]:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	2,633
Total	27,784

[2] GASB Statement 27 does not require the number of participating employers and members to be presented in the notes to the financial statements. The information has been provided here so it can be included in the notes if desired.

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. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed $54.2 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, 2013, are as follows:

	LEOFF Plan 1	**LEOFF Plan 2**
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

* The employer rates include the employer administrative expense fee currently set at 0.18%

** The employer rate for ports and universities is 8.59%.

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**
2013	$ 0	$ 128,693
2012	$ 0	$ 128,343
2011	$ 0	$ 26,969

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:

- PERS 2 or 3 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
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- 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, Spokane and Tacoma; 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 2013, 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, in lieu of any retirement benefit, 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a 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 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012[3]:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Nonvested	2,167
Total	4,337

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, 2013, are as follows:

	PSERS Plan 2
Employer*	10.54%
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
2013	$ 74,345
2012	$ 59,156
2011	$ 49,665

Deferred Compensation Plans

Island County offers employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under the plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or an unforeseeable emergency as defined by the Plan. Participants have a choice of three (3) independent plan administrators: Mass Mutual Financial Group; Nationwide Retirement Solutions; and the Department of Retirement Systems.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those property amounts 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 plans shall be used for, or diverted to, purposes other than for the exclusive use of providing benefits to participants and their beneficiaries or defraying reasonable expenses for administration of the plans.

[3] GASB Statement 27 does not require the number of participating employers and members to be presented in the notes to the financial statements. The information has been provided here so it can be included in the notes if desired.

NOTE 8 – RISK MANAGEMENT

Island County is a member of the Washington Counties Risk Pool ("Pool"). Other Washington counties that are Pool 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 are former Pool members, having voluntarily terminated their memberships beginning October 1st of 2010, 2002 and 2003 respectively.

Background: The Pool was formed August 18, 1988 after an Interlocal (Cooperative) Agreement under Chapter 39.34 RCW was approved by several Washington counties. The agreement and cooperative created a mechanism to provide 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 the state's "pooling" laws and regulations, more specifically, RCW 48.62 RCW and WAC 200.100. They must be first approved and then are overseen by the State Risk Manager, and they are subject to annual fiscal audits performed and issued by the State Auditor's Office.

Noteworthy is the definition of "insurer" within RCW 48.01.050 for application of the Washington Insurance Code, which reflects the following:

> *Two or more local government entities, under any provision of law, that join together and organize to form an organization for the purpose of jointly self-insuring or self-funding are not an "insurer" under this code.*

Thus, under Washington law the Pool is not an insurance company, and therefore, not subject to the rules governing insurance policy interpretation.

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. Its 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.

A Membership Compact was added as an addendum to the Interlocal Agreement in 2000. It constitutes a commitment to strengthen the Pool by helping member counties implement and/or enhance their local risk management efforts to reduce losses and support the best management of the Pool and its resources. It obligates member counties to support these goals through three major elements – membership involvement, risk control practices, and a targeted risk management program(s).

New members may be asked to pay modest fees to cover any costs to analyze the member's loss data and risk profile, but they are normally only required to contribute their proportional shares on their entry year's insuring assessments. Members contract initially under the Interlocal Agreement to remain in the Pool for at least five years. Following the initial term, a county may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files its required advance written notice; otherwise, the Interlocal Agreement and memberships automatically renew for another year. Even after termination, former members remain responsible for reassessments by the Pool for the members' proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

Joint Self-Insurance Liability Program ("JSILP"): The Pool, which recently celebrated its Silver Anniversary, has been providing its membership with occurrence-based, jointly purchased and/or jointly self-insured 3rd-party liability coverage since October 1, 1988 for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by an occurrence during the policy period and occurring anywhere in the world. Total coverage limits have grown from the $1 million limit that existed during the Pool's initial two insuring months to $5 million, then to $10 million and onto $15 million before reaching the $20 million occurrence limit that has existed since October 1, 2003. (Note: Additional occurrence limits of $5 million have been available for many years for member counties to choose as an individual county-by-county option.) There are no aggregate limits to the payments the WCRP makes for any one-member county or all member counties combined.

The initial $10 million in coverage is jointly self-insured. The remaining JSILP coverage, up to $15 million, is acquired as "following form" excess insurance from higher rated commercial carriers. Member counties annually select a deductible amount applicable to each occurrence from these options: $10,000, $25,000, $50,000, $100,000, $250,000 or $500,000.

Reinsurance is acquired from higher rated carriers as well to protect the Pool directly and its member counties indirectly from larger-valued losses. The reinsuring program is written with a self-insured retention ("SIR") equal to the greater of the applicable member's deductible or $100,000. The reinsuring agreements also include first and second layer corridor elements – to $1 million and from $1 to $2 million – with cumulative (WCRP) retentions of $2.95 and $0.65 million and annual aggregate limits of $40 and $20 million respectively.

616 third-party liability claims (and lawsuits) were reported to the Pool by its member counties during Py2013, and added to the Pool's administrative database. This represented a 3% reduction in year-over-year filings and a continuation of recent years' decline in annual filings. The new filings raised the to-date total (Oct 1988 – Sep 2013) to 19,232. Total incurred losses (payments made plus reserve estimates for *open* claims) increased $8.1 million during Py2013 to $250.9 million. The annual amount is 50% more than the corresponding Py2012 amount of $5.4M, but it represents just 51% of the Py2011 increase of $16.0M, 46% of the $17.8M in Py2010, and only 39% of the $20.8M annual average for Py2007 through Py2009. Only 327 claims remained classified as *'open'* at year-end. With 307 additional claims projected by the actuary from all years as incurred but not yet reported ("IBNR"), the Pool's estimated ultimate claims totaled 19,539 as of September 30, 2013.

The independent actuary's projection of total reserves for claims that are expected to be the Pool's responsibility decreased slightly (-1%) from Py2012 to $14.6 million. This amount includes $3.4 million (-21% from Py2012) for losses within the Pool's self-insured retention, $10.0 million (+7%) for losses subject to the "corridor" programs with the Pool's reinsurers, $0.2 million for losses within the Py2013 quota-shared (10%) upper reinsured layer, and $1.0 million (+3%) for estimated unallocated loss adjustment expenses. *NOTE: The corridor programs involving the WCRP's first (and now second) layer reinsurers began seven years ago. These programs included an occurrence coverage maximum of $0.5 million during the first three years, $1.0 million during the next three years, and of both $1.0 million and $2.0 million beginning with Py2013. Occurrence coverage minimums have remained since the corridor program began the greater of the applicable member deductible or $100,000.*

<u>Washington Counties Property Program ("WCPP")</u>: Beginning with Py2006 (October 1, 2005), WCRP added property insurance as a county-by-county option that is jointly purchased from a consortium of higher rated commercial carriers. Since the initial offering, both participation and the total values of covered properties have nearly doubled. Twenty-six WCRP counties with covered properties totaling over $2.7 billion participated in the optional insuring program during Py2013.

The WCPP includes All Other Peril coverage limits of $500 million per occurrence for losses to buildings and contents, vehicles, mobile/contractors equipment, EDP and communication equipment, etc., as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being $200 million. All Other Perils coverage limits apply to any occurrence, even those affecting more than one participating county, and there are no annual (AOP) aggregate limitations. Flood and Earthquake coverages each include annual aggregate limits of $200 million. The WCPP coverage also includes sublimited items, e.g. Equipment Breakdown / Boiler & Machinery ($100 million), Special Flood Hazard Areas ($25 million). In addition, there are endorsements for Green Construction Upgrades, Reproduction Coverage for Historic Structures, and Terrorism ($20 million).

AOP occurrence deductibles, which the participating counties select annually and which the counties are solely responsible for paying, range between $5,000 and $50,000. Higher deductibles are applicable to losses resulting from catastrophe relevant losses.

There were 15 claims filed during Py2013 by participating counties with loss estimates totaling $2.6 million and losses paid by fiscal year-end of $1.5 million. During its initial eight years as a WCRP optional insuring program, there have been 103 WCPP claims filed with to-date incurred losses totaling $15.5 million and losses paid through fiscal 2013 of $8.9 million. Considering the fact that to-date WCPP premiums have totaled $22.2 million, the WCPP's cumulative loss ratio is below 0.7.

Other Insurances: Several member counties also use the Pool's contracted producer (broker) to secure other (specialty) insurances. Examples include public officials bonds and crime (and fidelity), cyber risks/security, special events/concessionaires, underground storage tank and other environmental hazards insurance coverages.

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 Board, which is 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 a) determining the extent of the 3rd-party self-insured liability coverage to be offered (approving the insuring document or coverage form), b) selecting the reinsurance program(s) to acquire and the excess insurance(s) to be jointly purchased or offered for optional purchase by the member counties, c) approving the Pool's annual operating budget(s) and work program(s), and d) approving the members' deposit assessment and reassessment formulas for the policy year ensuing and for any deficient prior period(s).

Regular oversight of the Pool's operations is provided by an 11-person executive committee selected from and by the WCRP Board. Committee members are elected to staggered, 3-year terms. The Committee meets several times throughout each policy year to: a) approve all WCRP disbursements and review the Pool's financial health; b) approve case settlements exceeding the applicable member's deductible by at least $50,000; c) review all claims with incurred loss estimates exceeding $100,000; and d) evaluate the Pool's operations and program deliverables as well as the Executive Director's performance. Committee members are expected 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.

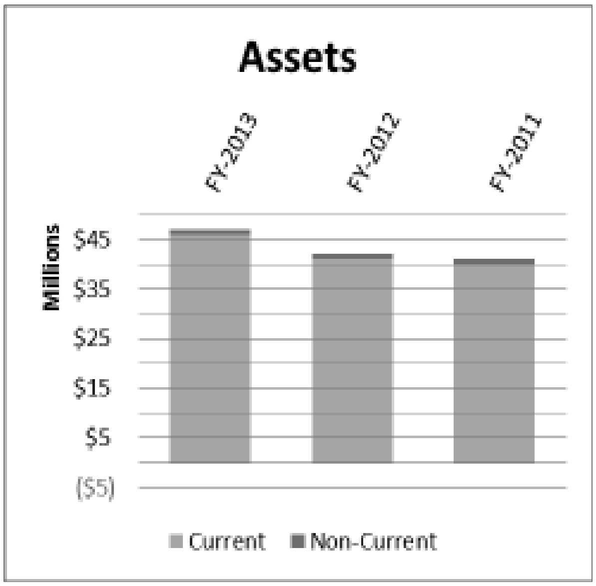
Staffing and Support Teams: The Pool's multi-person claims staff with years of combined experience handles or oversees the handling of the several hundred liability cases each year filed upon and submitted by the Pool's member counties. This includes establishing reserves for covered events and estimating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

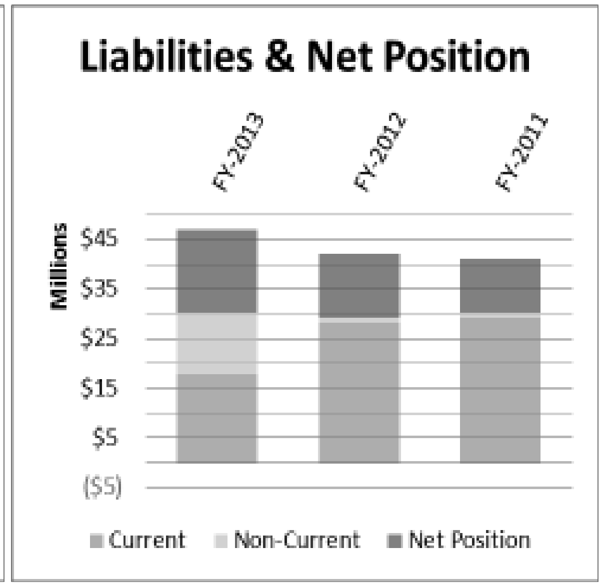
Professionals from some of the more respected organizations worldwide are regularly called upon to address various needs of the Pool. More specifically, independent actuarial services are furnished by PricewaterhouseCoopers, LLP. Independent claims auditing is performed by Strategic Claims Direction LLC, and special claims audits are occasionally performed by the Pool's commercial reinsurers/insurers. Insurance producer (broker) and advanced loss control and prevention services are provided by Arthur J. Gallagher Risk Management Services, Inc.. Coverage counsel is furnished by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend the numerous Pool-covered cases, as well as the examinations by and services from both the State Risk Manager and State Auditor's Offices.

Financial Summary: During fiscal 2013, Pool assets grew 11% (+$4.8 million) and liabilities by 3% (+$1.0 million). Its net (financial) position, which is commonly referred to as "net assets" and sometimes as "owners' equity", improved 30% (+$3.9 million) during the Pool's Silver Anniversary year to $16.7 million as of September 30, 2013. Much of the net position is 'restricted' ($12.5 million) to address the Board of Directors' recently revised requirements in section D of its Underwriting Policy. *NOTE: This policy revision resulted in the Pool's own restriction increasing $7.5 million*

(+187%) and the unrestricted declining $3.8 million (-53%). The (State Risk Manager's) solvency provisions in WAC 200.100.03001(3) required $0.9 million for satisfaction, a year-over-year increase of $0.1 million (+15%). Another $0.9 million is invested in capital assets (net of debt). <u>The remaining $3.3 million is unrestricted</u>.

$3.75 million in operating income was experienced during Py2013, an increase of 111% from Py2012. Operating revenues were 'flat', but expenses declined nearly $2.0 million (-15%). This reduction was in part due to even more favorable adjustments by the independent actuary, PricewaterhouseCoopers LLP ("PwC"), to the Pool's claims-related reserves, and to the reduction (-26%) in the premiums to acquire the reinsurance, excess insurance and property insurance policies requested by the Board.





<u>Contingent Liability</u>: 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 of the Pool resulting from any fiscal year are financed by reassessments (aka retroactive assessments) placed upon the deficient year's membership in proportion with the deposit assessments initially levied and collected. <u>The Pool's reassessments receivable balance at December 31, 2013 was ZERO ($0) as there were no known contingent liabilities at that time</u>.

<u>NOTE 9 – SHORT-TERM DEBT</u>

The County has no short-term debt as of December 31, 2013. Current portion of the long-term debt payments are shown in Note 10.

<u>NOTE 10 – LONG-TERM DEBT</u>

A. <u>Long-term Debt</u>

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 that have been issued are being repaid from the applicable resources. Only governmental funds have bond debt payable at December 31, 2013. Island 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 2005 and 2010 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:

Issue Title	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%	$ 857,095
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%	$ 280,750
			Total	$ 1,137,845

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
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	$ 8,210,000	$ 1,904,385

B. Revolving Fund and Other Loans

Island 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 semiannually for 20 years with the final payment due in 2021.

Project Completion Date	Original Amount	Interest Rate	Amount at 12/31/13
7/1/09	$ 302,363	0.5%	$ 67,779
6/8/10	$ 197,614	1.1%	$ 66,850
10/31/11	$ 147,425	1.3%	$ 99,990
6/15/15	$ 325,159	1.4%	$ 325,159
11/30/01	$ 685,543	1.5%	$ 304,972
		Total	$ 864,750

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

Year Ending Dec 31	Principal	Interest
2014	$ 181,278	$ 6,506
2015	$ 92,436	$ 4,785
2016	$ 494,380	$ 44,494
2017	$ 481,365	$ 23,414
2018-2021	$ 1,293,452	$ 29,392
Total	$ 2,542,911	$ 108,591

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 $346,742 for Governmental funds and $13,662 for Business-type funds.

NOTE 11 – LEASES

A. Operating Leases

The County leased two office buildings, and one copy machine. One building lease is under a non-cancelable operating lease, which may be adjusted once annually to keep in line with the Consumer Price Inflation trends as reported in the Seattle "New All Urban" published by the Washington Local Government Personnel Institute of Labor Relations. That lease ends in 2016. The second building lease ended June 30, 2013. Total costs for all such leases were $99,711 for the year ended December 31, 2013.

Future minimum lease payments are:

Year Ending December 31	Amount
2014	$ 64,355
2015	$ 64,355
2016	$ 64,355
Total	$ 193,065

B. Capital Leases & Other Notes Payable

At this time, Island County has no active capital leases. A capital lease to upgrade the Central Services' mail processing machine and secure beneficial service and rate charges on that equipment was entered into at the end of 2010, and paid in full in 2013.

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long–term liabilities:

	Beginning Balance 01/01/13	Additions	Reductions	Ending Balance 12/31/13	Due within One Year
Governmental Activities:					
General Obligation Bonds	$ 8,980,000		$ (770,000)	$8,210,000	$ 810,000
Amortization/Issuance Costs	191,993		(17,520)	174,473	17,520
Capital Leases	3,456		(3,456)		
Revolving State Fund	969,267	74,975	(179,493)	864,749	181,278
Compensated Absences	3,260,472	372,166	(398,080)	3,234,558	346,742
Other Post-Employment Benefits Payable	1,053,752	293,977	(75,288)	1,272,441	75,288
Governmental Activity Long-term Liabilities:	$14,458,940	$ 717,619	$(1,448,267)	$13,728,292	$1,430,828
Business-Type Activities:					
Compensated Absences	$ 176,572	$ 508	$ (24,672)	$ 152,408	$ 13,662
Business-type Activity Long-term Liabilities:	$ 176,572	$ 507	$ (24,672)	$ 152,407	$ 13,662

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 $27,929 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 the County will have to make a 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. 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 POSITION

The Government-wide Statement of Net Position reports $34.3 million of restricted net position, which are restricted by enabling legislation.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund balances consist primarily of interfund vouchers accrued at December 31. Those amounts will be cleared in 2014.

Interfund transfers of $5.0 million, which includes (1) budget operating transfers of $1.4 million; (2) operating support transfers of $2.7 million and; (3) $0.9 million of capital improvement transfers. A schedule of interfund balances and transfers between funds is shown on the schedule 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	$ 454,027	
Accounts receivable, customers		471,627
Cable and telephone fees	539,759	
Interest on investments and property tax	127,885	
Miscellaneous	188,122	
Total	$ 1,309,793	$ 471,627

B. Accounts Payable consist of:

	Governmental Activities	Business-Type Activities
Invoices for daily operating expenses	$ 1,613,613	$ 273,373
Total	$ 1,613,613	$ 273,373

C. Other Current Liabilities consist of:

	Governmental Activities	Business-Type Activities
Payroll payable	$ 1,224,564	$ 72,416
Accrued interest on debt	27,920	
IBNR claims	237,600	
Total	$ 1,490,084	$ 72,416

Schedule of Interfund Balances
For the Year Ended December 31, 2013

		Due From									
		Governmental Activities					Business-Type Activities				
		General Fund	County Road Fund	Other Governmental Funds	Internal Service Funds	Subtotal Governmental Activities	Solid Waste	Other Business-Type	Total Business-Type	Fiduciary Funds	Total Due From
Due To	**Governmental Activities**										
	General Fund			14,818		14,818					14,818
	County Road Fund					-					-
	Other Governmental Funds			845,335		845,335					845,335
	Internal Service Funds					-					-
	Subtotal	-	-	860,153	-	860,153	-	-	-	-	860,153
	Fiduciary Funds										
	Business Type Activities-Solid Waste		-	-	-	-			-		-
	Business Type Activities-Other				-	-			-		-
	Total Due To	-	-	860,153	-	860,153	-	-	-	-	860,153

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, 2013

		Transfer Out									
		Governmental Activities					Business-Type Activities				
		General Fund	County Road Fund	Other Governmental Fund	Internal Service Fund	Subtotal Governmental Activities	Solid Waste	Other Business-Type	Total Business-Type	Fiduciary Funds	Total Transfer Out
Transfer In	**Governmental Activities**										
	General Fund	100,900	1,481,239	514,357	143,300	2,239,796	239,200	1,100	240,300		2,480,096
	County Road Fund										
	Other Governmental Funds	868,101	796,967	548,763	28,000	2,241,831	76,083		76,083		2,317,914
	Internal Service Funds	220,083				220,083					220,083
	Subtotal	1,189,084	2,278,206	1,063,120	171,300	4,701,710	315,283	1,100	316,383		5,018,093
	Fiduciary Funds										
	Business Type Activities										
	Solid Waste										
	Other Business Type Funds										
	Total Business Type Activities	-	-	-	-	-	-	-	-	-	-
	Total Transfer In	1,189,084	2,278,206	1,063,120	171,300	4,701,710	315,283	1,100	316,383	-	5,018,093

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 Island County. The member's hospital, medical, and nursing care expenses not paid by Worker's Compensation, Social Security, other insurance provided by another employer, another pension plan, or any other similar source, is covered. Most medical coverage for eligible retirees is provided by one of Island County's employee medical insurance programs and the purchase of long-term care insurance. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses that 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 Island County as required by RCW. Island 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 $1,272,441 is included as a noncurrent liability on the Statement of Net Position.

Determination of Annual Required Contribution:		**12/31/2013**
Normal Cost at Year end	$	
Amortization of UAAL*		346,603
Annual Required Contribution (ARC)	$	346,603
Determination of Net OPEB Obligation (NOO)		
Annual Required Contribution (ARC)	$	346,603
Interest on Prior Year Net OPEB Obligation (NOO)		42,150
Adjustment to ARC		(94,776)
Annual OPEB Cost		293,977
Contribution Made		(75,288)
Increase In Net OPEB Obligation (NOO)	$	218,689
Net OPEB Obligation (NOO) – Beginning of Year	$	1,053,752
Net OPEB Obligation (NOO) – End of Year	$	1,272,441

*Unfunded Actuarial Accrued Liability (UAAL)

Island County's OPEB costs, the percentage of OPEB cost contributed to the plan and the Net OPEB Obligation (NOO) for 2013 and the preceding four years is as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	NET OPEB Obligation
12/31/2009	$ 267,747	34.2%	$ 176,090
12/31/2010	$ 227,518	36.3%	$ 145,011
12/31/2011	$ 231,552	33.3%	$ 154,429
12/31/2012	$ 197,625	38.9%	$ 120,700
12/31/2013	$ 293,977	25.6%	$ 218,689

Funded Status and Funding Progress

As of January 1, 2007, the plan was 0% funded. The most recent actuarial valuation date is June 30, 2011. The funded status of the plan as of December 31, 2013 was as follows:

Actuarial Accrued Liability (AAL)	$ 3,853,664
Amount Accrued as of 12/31/2013	(1,272,441)
Un-accrued Actuarial Liability	$ 2,581,223

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 healthcare cost trends. 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 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 determing the Actuarial Accrued Liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 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 statewide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four (4) active groupings and four (4) inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over fifteen (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 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 there are insufficient funds in the post-closure reserve account, Island County shall pay any and all shortfalls.

Per the new Financial Assurance Plan conducted in 2013 by SCS Engineers, as of December 31, 2013, the estimated future liability for closure and post-closure maintenance and monitoring equipment is $1,749,780. The future liability amount is an estimate and subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations. In 2012, the closure and post-closure maintenance and monitoring costs were reported to be $2,856,420. Therefore, a book entry reduction of $1,106,640 in expense was done to reflect the new assessment amount. As required by Federal, State, and local regulations, cash in the amount of $1,749,780 has been restricted and a liability recorded. The next Financial Assurance Plan review is anticipated to be performed in 2018 with subsequent reviews conducted at five (5) year intervals thereafter. The new average estimated annual maintenance and monitoring costs is $174,978 per year for the next ten years.

The total current expense of $379,624 included the drilling of four (4) new wells, which were planned originally to take place over several years. When the drilling started a cost saving decision was made to do all four (4) wells at the same time.

ISLAND COUNTY

BUDGET COMPARISON SCHEDULE

For the Year Ended December 31, 2013

Annual appropriated budgets are adopted on the modified accrual basis of accounting at the Fund level, except in the General Fund, where the level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the Department level.

GENERAL FUND *	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	$13,295,000	$13,374,189	$14,453,934	$1,079,745
Licenses and Permits	936,625	936,625	1,044,191	107,566
Intergovernmental Revenues	2,343,984	2,524,254	2,851,501	327,247
Charges For Goods and Services	1,952,376	1,966,376	2,049,993	83,617
Fines and Forfeits	492,700	492,700	536,792	44,092
Miscellaneous Revenues	209,699	209,699	209,895	196
Interest	324,000	334,200	(556,662)	(890,862)
TOTAL REVENUES	19,554,384	19,838,043	20,589,644	751,601
EXPENDITURES				
General Government Services	8,450,080	8,092,775	7,982,550	110,225
Judicial	2,876,299	2,816,785	2,801,032	15,753
Security Of Persons and Property	7,393,059	8,505,621	8,426,750	78,871
Utilities and Environment	230,729	231,289	186,047	45,242
Economic Environment	1,758,567	1,814,512	1,779,304	35,208
Culture and Recreation	198,837	218,748	216,185	2,563
Debt Service	6,000	6,000	4,889	1,111
Other Expenditures	122,985	638,510	330,970	307,540
TOTAL EXPENDITURES	21,036,556	22,324,240	21,727,727	596,513
EXCESS OF REVENUES OVER EXPENDITURES	(1,482,172)	(2,486,197)	(1,138,083)	1,348,114
OTHER FINANCING SOURCES (USES)				
Transfers In	2,457,200	2,466,900	2,480,096	13,196
Transfers (Out)	(1,134,341)	(1,190,131)	(1,189,084)	1,047
TOTAL OTHER FINANCING SOURCES (USES)	1,322,859	1,276,769	1,291,012	14,243
NET CHANGE IN FUND BALANCE	(159,313)	(1,209,428)	152,929	1,362,357
BEGINNING FUND BALANCE		10,596,830	10,596,830	
ENDING FUND BALANCE		$9,387,402	$10,749,759	$1,362,357

* Includes the General Fund and all the additional managerial funds that are presented in the Financial Statements

COUNTY ROAD FUND	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	$8,057,500	$8,057,500	$8,245,593	$188,093
Licenses and Permits	116,800	116,800	80,821	(35,979)
Intergovernmental Revenues	8,603,517	8,603,517	8,225,338	(378,179)
Charges For Goods and Services	68,000	68,000	375,064	307,064
Fines and Forfeits	1,000	1,000	0	(1,000)
Miscellaneous Revenues	10,000	60,000	1,593	(58,407)
TOTAL REVENUES	16,856,817	16,906,817	16,928,409	21,592
EXPENDITURES				
Transportation	13,692,750	13,776,420	13,838,475	(62,055)
Capital Outlay	665,400	665,400	93,860	571,540
TOTAL EXPENDITURES	14,358,150	14,441,820	13,932,335	509,485
EXCESS OF REVENUES OVER EXPENDITURES	2,498,667	2,464,997	2,996,074	531,077
OTHER FINANCING SOURCES (USES)				
Proceeds From Sale of Capital Assets	5,000	5,000	2,073	(2,927)
Other Nonrevenue's - Insurance Recovery			13,645	13,645
Transfers In				
Transfers (Out)	(2,503,667)	(2,553,667)	(2,278,206)	275,461
TOTAL OTHER FINANCING SOURCES (USES)	(2,498,667)	(2,548,667)	(2,262,488)	286,179
NET CHANGE IN FUND BALANCE	0	(83,670)	733,586	817,256
BEGINNING FUND BALANCE		13,191,739	13,191,739	
ENDING FUND BALANCE		$13,108,069	$13,925,325	$817,256

Island County, Washington

OTHER POST EMPLOYMENT BENEFITS
LEOFF 1 RETIREMENT BENEFITS
AS OF DECEMBER 31, 2013

Year End	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (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
12/31/2013	-	$ 3,853,664	$ 3,853,664	-	-	N/A

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

NOTE 1 – EXCESSES OF EXPENDITURES OVER APPROPRIATIONS

On a budgetary basis the expenditures presented in the Budget Comparison Schedules are less than the total amounts available for appropriation in the both the General Fund and County Road Fund.

NOTE 2 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The actuarial method used in the schedule of funding progress of Other Post Employee Benefits is disclosed in the Notes To The Financial Statements / Note 17 – Postemployment Benefits Other Than Pension Benefit.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2013

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	**Cluster Title / Federal Program Name**	**CFDA Number**	**Other Award 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	$ 3,347		$ 3,347	
	National School Lunch Program	10.555	MOU	$ 6,246		$ 6,246	
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	$ 203,726		$ 203,726	
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C16886	$ 2,542		$ 2,542	
	WIC Farmers' Market Nutrition Program (FMNP)	10.572	C16886	$ 170		$ 170	
U.S. Department of Agriculture/ WA State Dept of Agriculture	Rural Business Enterprise Grants	10.769		$ 47,764			
			K 821				
			56-015-916001321	$ 30,490			
			Subtotal	$ 78,254		$ 78,254	
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	$ 19,596			
			13-1364P	$ 14,211			
			12-12960P	$ 27,964			
			Subtotal	$ 61,771		$ 61,771	
U.S. Department of Housing & Urban Development/pass-through from Washington State Dept of Commerce	Community Development Block Grant	14.228	12-65400-016	$ 66,919		$ 66,919	
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	$ 1,000		$ 1,000	
U.S. Department of Justice - Bureau of Justice Assistance	Drug Court Discretionary Grant Program	16.585	2010-DC-BX-0047		$ 2,630	$ 2,630	
U.S. Department of Justice / pass-through from the Office of Crime Victims Advocacy	Violence Against Women Formula Grants	16.588					
			F09-31103-056	$ 8,226			
			F12-31103-048	$ 11,115			
			Subtotal	$ 19,341		$ 19,341	
U.S. Department of Justice / Bureau of Justice Assistance	Bullet Proof Vest Partnership Program	16.607	ID04025006		$ 5,195	$ 5,195	
U.S. Department of Justice / pass-through from WA State Dept of Social & Health Services	Enforcing Underage Drinking Laws Program	16.727	1163-27304	$ 7,500		$ 7,500	
U.S. Department of Transportation / pass-through from WA State Dept. of Transportation	Highway Planning and Construction						
		20.205	LA-6115	$ 5,268			
			LA-7002	$ 184,896			
			LA-7003	$ 8,289			
			LA-7350	$ 52,572			
			LA-7470	$ 826,155			
			LA-7538	$ 329			
			LA-7635	$ 135,177			
			LA-7968	$ 44,561			
			LA-8056	$ 408,539			

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, 2013

			LA-8093	$ 43,287			
			LA-8094	$ 1,178			
			LA-8103	$ 1,523,850			
			Subtotal	$ 3,234,101		$ 3,234,101	
U.S. Department of Transportation / pass-through from Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	MOU	$ 1,261		$ 1,261	
U.S. Department of Transportation / pass-through from Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	MOU	$ 1,950		$ 1,950	
Environmental Protection Agency / pass-through from Northwest Straits Marine Conservation Fund	Puget Sound Action Agenda Outreach, Education and Stewardship Support Program	66.122	12-940	$ 1,059			
			2012-40	$ 6,344			
			Subtotal	$ 7,403		$ 7,403	
Environmental Protection Agency / pass-through from Washington State Dept. of Health	Puget Sound Action Agenda - Technical Investigations and Implementation Assistance Program	66.123	C16886	$ 88,179			
Environmental Protection Agency / pass-through from Washington State Puget Sound Partnership			2012-31	$ 20,020			
			2013-49	$ 71,993			
Environmental Protection Agency / pass-through from Washington State Dept of Commerce			12-63401-010	$ 130,234			
Environmental Protection Agency / pass-through from Washington State Dept of Ecology			DNR-01-2013	$ 8,929			
			Subtotal	$ 319,355		$ 319,355	
Environmental Protection Agency / pass-through from Washington State Dept. of Ecology	National Estuary Program	66.456	G1300025	$ 47,679			
			G1400459	$ 100			
			Subtotal	$ 47,779		$ 47,779	
Environmental Protection Agency / pass-through from Washington State Dept. of Ecology	Nonpoint Source Implementation Grants	66.460	G1200280	$ 60,848		$ 60,848	
Environmental Protection Agency / pass-through from Washington State Dept. of Ecology	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C16886	$ 14,321		$ 14,321	
U.S. Election Assistance Commission / pass through from WA Secretary of State	Help America Vote Act Requirements Payments	90.401	G2840 7A/7B	$ 31,066		$ 31,066	
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-0441	$ 4,000		$ 4,000	
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	$ 28,801		$ 28,801	
U.S. Department of Health and Human Services / pass-through from the WA State Dept of Health	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	C16886	$ 2,000		$ 2,000	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	Immunization Cooperative Agreements	93.268					2
			C14949	$ 18,485			
			C16886	$ 2,407			
			C16886	$ 8,732			
			C16886	$ 4,165			
			Subtotal	$ 33,789		$ 33,789	

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

U.S. Dept of Health and Human Services / pass-through WA State Dept of Health	Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	2012-10013	$ 35,891		$ 35,891	
U.S. Dept of Health and Human Services / pass-through WA State Dept. of Health	PPHF 2012 National Public Health Improvement Initiative	93.507	C16886	$ 10,352		$ 10,352	
U.S. Dept of Health and Human Services / pass-through 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	$ 8,571		$ 8,571	
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	$ 46,821			
			75-1501-0-1-609	$ 53,226			
			Subtotal	$ 100,047		$ 100,047	
Department of Health and Human Services / pass-through from WA State Dept of Health	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF-2012)	93.733	C16886	$ 837		$ 837	
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	1163-32540	$ 45,000			
			1163-33933	$ 4,500			
			K761	$ 4,650			
			Subtotal	$ 54,150		$ 54,150	
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	$ 31,371			
			MHBG-13-15	$ 39,887			
			Subtotal	$ 71,258		$ 71,258	
U.S. Department of Health and Human Services/ pass-through WA State Dept of Social & Health Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27304	$ 111,915		$ 111,915	
Department of Health and Human Services pass-through from Washington State Social and Health Services	Preventive Health and Health Services Block Grant	93.991	1263-56040	$ 3,547			
			1363-78353	$ 2,738			
			Subtotal	$ 6,285		$ 6,285	
	Maternal and Child Health Services Block Grant to the States	93.994	C16886	$ 55,180		$ 55,180	
Department of Homeland Security / pass-through from WA State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	2009-37	$ 21,508		$ 21,508	
Department of Homeland Security / pass-through from WA State Military Department	Emergency Management Performance Grants (EMPG)	97.042	E14-167	$ 961		$ 961	
	Homeland Security Grant Program	97.067	E11-093	$ 142,191			3
			E12-186	$ 7,902			4
			E13-237	$ 62,413			
			K1032-CCP-11	$ 1,080			
				$ 213,586		$ 213,586	
Total Federal Awards Expended				$ 4,928,031	$ 7,825	$ 4,935,856	

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, 2013

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 SUBRECIPIENTS

Included in the amount expended for this program is $13,620.70 that was passed through to Island County Fire Protection District No. 1.

NOTE 4 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the amount expended for this program is $6,976.69 that was passed through to Island County Fire Protection District No. 1.

Corrective Action Plan for Findings Reported Under OMB Circular A-133

Island County
January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of Island County. The State Auditor's Office has reviewed the information as presented by the County.

<table>
<tr><td>Finding ref number:
1</td><td>Finding caption:
The County should improve its internal controls over financial reporting to ensure accurate reporting.</td></tr>
<tr><td colspan="2">Name, address, and telephone of auditee contact person:
LaRae Brown
Chief Deputy Auditor
P.O. Box 5000
Coupeville, WA 98239
360-678-7849

Leo Kim
Senior Accountant
P.O. Box 5000
Coupeville, WA 98239
360-678-7829</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
Island County appreciates the efforts, assistance, and recommendations of the State Auditor's Office. Island County strives for financial reports that are both transparent and accurate. Island County is committed to ongoing quality improvement and will provide adequate staff training, and seek technical guidance to ensure accurate and timely preparation, review and reporting of the financial statements.</td></tr>
<tr><td colspan="2">Anticipated date to complete the corrective action: 12/31/2014</td></tr>
</table>

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov