



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

Skagit Council of Governments

Skagit County

For the period January 1, 2015 through December 31, 2015

Published May 2, 2016

Report No. 1016571





Washington State Auditor's Office

May 2, 2016

Board of Directors
Skagit Council of Governments
Mount Vernon, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Skagit Council of Governments' financial statements and compliance with federal laws and regulations.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Skagit Council of Governments
Skagit County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Skagit Council of Governments are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the Council’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

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

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 Council's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with the Uniform Guidance.

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance:

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

**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**

**Skagit Council of Governments
Skagit County
January 1, 2015 through December 31, 2015**

Board of Directors
Skagit Council of Governments
Mount Vernon, 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 Skagit Council of Governments, Skagit County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Council's financial statements, and have issued our report thereon dated April 21, 2016.

We issued an unmodified opinion on the fair presentation of the Council's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Council using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Council'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's

internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

April 21, 2016

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

**Skagit Council of Governments
Skagit County
January 1, 2015 through December 31, 2015**

Board of Directors
Skagit Council of Governments
Mount Vernon, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the Skagit Council of Governments', Skagit County, Washington, compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended December 31, 2015. The Council's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council'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 Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council 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, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Council 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 Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

April 21, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Skagit Council of Governments Skagit County January 1, 2015 through December 31, 2015

Board of Directors
Skagit Council of Governments
Mount Vernon, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Skagit Council of Governments, Skagit County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Council's financial statements, as listed on page 16.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 an opinion 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 Council'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 Council'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.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Skagit Council of Governments has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Skagit Council of Governments, for the year ended December 31, 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Council used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States

of America, the financial position of the Skagit Council of Governments, as of December 31, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 April 21, 2016 on our consideration of the Council’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 Council's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

April 21, 2016

FINANCIAL SECTION

**Skagit Council of Governments
Skagit County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements - 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Expenditure of Federal Awards – 2015
Notes to the Schedule of Expenditure of Federal Awards – 2015

Skagit Council of Governments
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

Beginning Cash and Investments

30810	Reserved	703,574
30880	Unreserved	166,158
388 & 588	Prior Period Adjustments, Net	-

Operating Revenues

330	Intergovernmental Revenues	529,384
340	Charges for Goods and Services	17,952
350	Fines and Penalties	891
360	Miscellaneous Revenues	151,559
Total Operating Revenues:		<u>699,786</u>

Operating Expenditures

540	Transportation	-
550	Natural and Economic Environment	645,736
598	Miscellaneous Expenses	-
Total Operating Expenditures:		<u>645,736</u>
Net Operating Increase (Decrease):		<u>54,050</u>

Nonoperating Revenues

370-380, 395 & 398	Other Financing Sources	36,133
Total Nonoperating Revenues:		<u>36,133</u>

Nonoperating Expenditures

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	281
594-595	Capital Expenditures	-
Total Nonoperating Expenditures:		<u>281</u>

Net Increase (Decrease) in Cash and Investments: **89,902**

Ending Cash and Investments

5081000	Reserved	760,306
5088000	Unreserved	199,328
Total Ending Cash and Investments		<u>959,634</u>

The accompanying notes are an integral part of this statement.

**SKAGIT COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Note 1 - Summary of Significant Accounting Policies

The Skagit Council of Governments was created by County Commission on March 6, 1967 and operates under the laws of the state of Washington applicable to a voluntary governmental agency. The Skagit Council of Governments is a regional planning council which provides a forum for its members to cooperate and collaborate with each other as local governmental units, municipalities and organizations.

The Council provides staff support for regional transportation planning; and economic development activities in Skagit County. The Council is composed of elected officials representing the cities of: Anacortes, Burlington, Mount Vernon, and Sedro Woolley; the towns of: Concrete, Hamilton, LaConner, and Lyman; Skagit County, Skagit PUD, the Port of Anacortes, the Port of Skagit County, Skagit Transit, Swinomish Tribal Community and the Samish Indian Nation.

The Skagit Council of Governments reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid. In accordance with state law, the Council also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The Skagit Council of Governments is not legally required to appropriate its expenditures.

The Council's Bylaws require the Board of Directors to adopt an annual budget and to control expenditures in accordance with the adopted work program and budget. The Board of Directors also has the authority to amend the work program and budget to meet unanticipated needs or changed conditions.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to two hundred forty (240) hours and is payable upon separation or retirement.

Sick leave may be accumulated up to nine hundred sixty (960) hours. Upon retirement employees who have been employed by the Council for five (5) consecutive years or more and are eligible to receive Washington State Public Employees Retirement System (PERS) pension, or upon death may cash out 50% of their sick leave bank, up to a maximum, not to exceed two hundred forty (240) hours of unused sick leave. Payments are recognized as expenditures when paid.

F. Other Financing Sources or Uses

The Council's *Other Financing Sources or Uses* consist of disbursement of loan funds upon approval of new loan issuance and principal repayment received on loans from the Revolving Loan Programs.

G. Risk Management

Skagit Council of Governments is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

H. Employee Healthcare Benefits

Skagit Council of Governments is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Board of Directors. When expenditures that meet restrictions are incurred, the Council intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of primarily of Revolving Loan Funds for the Revolving Loan Programs funded by Economic Adjustment Assistance and Community Development Block Grants. These funds are used to capitalize new loans approved by the Board of Directors.

Note 2 – Deposits and Investments

Deposits and Investments

It is the Council's policy to invest all temporary cash surpluses.

All deposits and certificates of deposit are covered by the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Skagit County Treasurer or its agent in the government's name.

Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
L.G.I.P.	\$883,007

Note 3 – Pension Plans

Substantially all Skagit Council of Governments full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System (PERS).

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

At June 30, 2015 (the measurement date of the plans), the Council's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	<u>Allocation %</u>	<u>Liability (Asset)</u>
PERS 1	0.002585 %	\$135,220
PERS 2/3	0.003339%	119,304
SERS 2/3		
PSERS 2		
VFFRPF		
TOTAL		\$254,524

Note 4 – Revolving Loan Funds (RLF) Excess Funds in Sequestration

During the Revolving Phase, the Council must manage the RLF repayment and lending schedules to provide that at all times at least seventy-five (75%) percent of the RLF Capital is loaned or committed. When the percentage of loaned RLF Capital falls below the capital utilization standard, the dollar amount of the RLF funds equivalent to the difference between the actual percentage of the RLF Capital loaned and the capital utilization standard is referred to as “excess funds.”

As of the RLF reporting period ended September 30, 2015, Skagit Council of Governments reported excess funds in sequestration in the amount of \$250,312. The federal share of the funds in sequestration is \$187,734. The Council has requested an additional eighteen (18) month delay of de-obligation of excess funds until March 31, 2017. In the event the extension request is denied, the Economic Development Administration may decide to de-obligate the federal share of the excess funds and require the funds be returned to the Federal Government.

**Skagit Council of Governments
Schedule of Liabilities
For the Year Ended December 31, 2015**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Obligations						
259.12	Compensated Absences		25,425	8,534	-	33,959
264.30	Net Pension Liability		-	254,524	-	254,524
Total Revenue Obligations:			25,425	263,058	-	288,483
Total Liabilities:			25,425	263,058	-	288,483

**Skagit Council of Governments
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Economic Development Cluster								
Economic Development Administration, Department Of Commerce	Economic Adjustment Assistance	11.307	7-19-0867 Business Development	-	433,421	433,421	-	2, 3
Total Economic Development Cluster:				-	433,421	433,421	-	
CDBG - State-Administered CDBG Cluster								
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA State Dept. of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	F-01-96-745- 093 Micro Enterprise	883	-	883	-	2, 3
Office Of Community Planning And Development, Department Of Housing And Urban Development (via WA State Dept. of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	F-01-97-733- 004 Business Lending	1,305	-	1,305	-	2, 3
Total CDBG - State-Administered CDBG Cluster:				2,188	-	2,188	-	
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA 6169 North Sound Connecting Communities	9,777	-	9,777	7,292	2, 4, 5
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA 5983 Data Management	17,326	-	17,326	-	2, 4, 5
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA 8428 SCOG Administration	100,544	-	100,544	-	2, 4, 5
Federal Highway Administration (fhwa), Department Of Transportation (via WSDOT)	Highway Planning and Construction	20.205	GCB 1770 MPO -FHWA	232,259	-	232,259	-	2, 4, 5

The accompanying notes are an integral part of this schedule.

**Skagit Council of Governments
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
	Total Highway Planning and Construction Cluster:			359,906	-	359,906	7,292	
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Metropolitan Transportation Planning and State and Non- Metropolitan Planning and Research	20.505	GCB 1770 MPO -FTA	63,162	-	63,162	-	2, 4, 5
Transit Services Programs Cluster								
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB 1748 FTA- HSTP	1,292	-	1,292	-	2, 4, 5
	Total Transit Services Programs Cluster:			1,292	-	1,292	-	
	Total Federal Awards Expended:			426,548	433,421	859,969	7,292	

SKAGIT COUNCIL OF GOVERNMENTS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Council's financial statements. The Skagit Council of Governments uses single-entry, cash basis accounting. Revenues are recognized when cash is received and expenditures are recognized when paid.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Council's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The Council has four revolving loan programs funded through three federal grants.

Under the WA-CTED Micro-Enterprise Revolving Loan and the WA-CTED Business Lending Revolving Loan grants, interest received on outstanding loans, late payment charges, loan issuance fees and principal payments received on outstanding loans are considered program income. And loans of such funds to eligible recipients are considered expenditures. There were no new loan funds disbursed during the year. The amount of principal, interest, late payment charges and loan issuance fees received for the year is \$29,353.

The Economic Adjustment Assistance grant was funded in 1985 with 75% federal grant funds and 25% local matching funds. Under the Economic Adjustment Assistance grant, interest received on outstanding loans, late payment charges and loan issuance fees are considered program income. The amount of interest, late payment charges and loan issuance fees received for the year is \$6,301.

NOTE 4 - INDIRECT COST RATE

The amount expended includes \$184,546 claimed as an indirect cost recovery using an approved indirect cost rate of 135.27 percent. The Council has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

NOTE 5 – FRINGE BENEFIT RATE

The amount expended includes \$98,828 claimed as fringe benefit cost recovery using an approved fringe benefit rate of 72.44 percent.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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