



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements Audit Report Skagit County Dike District No. 12

**For the period January 1, 2014 through December 31, 2015**

**Published August 22, 2016**

**Report No. 1017278**





## Washington State Auditor's Office

August 22, 2016

Board of Commissioners  
Skagit County Dike District No. 12  
Burlington, Washington

### Report on Financial Statements

Please find attached our report on Skagit County Dike District No. 12's financial statements.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Skagit County Dike District No. 12 January 1, 2014 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Skagit County Dike District No. 12. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> January 1, 2013 through December 31, 2013	<b>Report Ref. No.:</b> 1013941	<b>Finding Ref. No.:</b> 2013-001
<b>Finding Caption:</b> The District's internal controls over financial statement preparation are inadequate to ensure accurate reporting.		
<b>Background:</b> Our prior audit identified internal control deficiencies due to a lack of technical knowledge of the employee responsible for preparing the financial statements, and an inadequate review process to ensure that the completed statements are accurate and prepared consistent with the <i>Budgeting, Accounting and Reporting Systems</i> (BARS) Manual. This deficiency resulted in significant errors that were noted during the prior audit and was mainly caused by the District's decision to prepare the annual report themselves while not ensuring that District staff obtained the necessary training and resources and ensuring that an adequate review process is in place.		
<b>Status of Corrective Action:</b> <div><input type="checkbox"/> Fully Corrected      <input checked="" type="checkbox"/> Partially Corrected      <input type="checkbox"/> Not Corrected      <input type="checkbox"/> Finding is considered no longer valid</div>		
<b>Corrective Action Taken:</b> <i>The District Manager and Administrative Assistant attended the 1/2 day training in 2015 and 2016 given by SAO personnel, and we will continue to receive the necessary training to successfully complete the annual financial statements. The District has also adopted a process of having the District Commissioners review the final annual financial statements.</i>		

**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 County Dike District No. 12  
January 1, 2014 through December 31, 2015**

Board of Commissioners  
Skagit County Dike District No. 12  
Burlington, 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 Skagit County Dike District No. 12, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated August 8, 2016.

We issued an unmodified opinion on the fair presentation of the District'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 District 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 audits of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated August 8, 2016.

## **COMPLIANCE AND OTHER MATTERS**

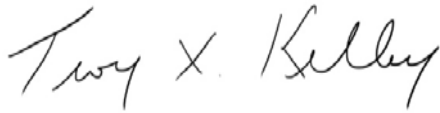
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 District'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 District'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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

August 8, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Skagit County Dike District No. 12 January 1, 2014 through December 31, 2015**

Board of Commissioners  
Skagit County Dike District No. 12  
Burlington, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Skagit County Dike District No. 12, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 12.

#### **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 audits. We conducted our audits 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 District'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 District'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, Skagit County Dike District No. 12 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 Skagit County Dike District No. 12, for the years ended December 31, 2015 and 2014, 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 District 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 Skagit County Dike District No. 12, as of December 31, 2015 and 2014, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Other Matters**

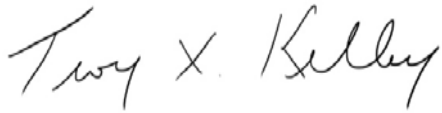
### ***Supplementary and Other Information***

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is 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 August 8, 2016 on our consideration of the District’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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

August 8, 2016

## **FINANCIAL SECTION**

### **Skagit County Dike District No. 12 January 1, 2014 through December 31, 2015**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2015  
Fund Resources and Uses Arising from Cash Transactions – 2014  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2014  
Notes to Financial Statements – 2015  
Notes to Financial Statements – 2014

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2015  
Schedule of Liabilities – 2014

**Skagit County Dike District No. 12**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

**Beginning Cash and Investments**

30810	Reserved	-
30880	Unreserved	4,908,950
388 & 588	Prior Period Adjustments, Net	-

**Operating Revenues**

330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	3,352,754
Total Operating Revenues:		3,352,754

**Operating Expenditures**

550	Natural and Economic Environment	1,998,918
598	Miscellaneous Expenses	-
Total Operating Expenditures:		1,998,918
Net Operating Increase (Decrease):		1,353,836

**Nonoperating Revenues**

370-380, 395 & 398	Other Financing Sources	245,831
391-393	Debt Proceeds	-
Total Nonoperating Revenues:		245,831

**Nonoperating Expenditures**

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	-
594-595	Capital Expenditures	-
Total Nonoperating Expenditures:		-
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>1,599,667</b>

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	6,508,617
<b>Total Ending Cash and Investments</b>		<b>6,508,617</b>

*The accompanying notes are an integral part of this statement.*

**Skagit County Dike District No. 12**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2014**

**Beginning Cash and Investments**

30810	Reserved	113,680
30880	Unreserved	3,267,856
388 & 588	Prior Period Adjustments, Net	-

**Operating Revenues**

330	Intergovernmental Revenues	1,116
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	3,328,638
Total Operating Revenues:		3,329,754

**Operating Expenditures**

550	Natural and Economic Environment	1,274,108
Total Operating Expenditures:		1,274,108
Net Operating Increase (Decrease):		2,055,646

**Nonoperating Revenues**

370-380, 395 & 398	Other Financing Sources	-
391-393	Debt Proceeds	-
Total Nonoperating Revenues:		-

**Nonoperating Expenditures**

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	516,667
594-595	Capital Expenditures	11,565
Total Nonoperating Expenditures:		528,232
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>1,527,414</b>

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	4,908,950
<b>Total Ending Cash and Investments</b>		<b>4,908,950</b>

*The accompanying notes are an integral part of this statement.*

**Skagit County Dike District No. 12**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>630 Security Dep</b>
308	Beginning Cash and Investments	15,652	15,652
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	462	462
380-390	Other Increases and Financing Sources	-	-
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	462	462
508	Ending Cash and Investments	16,114	16,114

*The accompanying notes are an integral part of this statement.*

**Skagit County Dike District No. 12**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2014**

		<b>Total for All Funds (Memo Only)</b>	<b>630 Security Dep</b>
308	Beginning Cash and Investments	15,414	15,414
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	14	14
380-390	Other Increases and Financing Sources	224	224
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	-	-
	Net Increase (Decrease) in Cash and Investments:	238	238
508	Ending Cash and Investments	15,652	15,652

*The accompanying notes are an integral part of this statement.*



**Skagit County Dike District No. 12**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2015**

**Note 1 - Summary of Significant Accounting Policies**

The Skagit County Dike District No. 12 was incorporated on 1895 and operates under the laws of the state of Washington applicable to a Dike District. The district is a special-purpose local government and provides flood protection.

The Skagit County Dike District No. 12 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. The following fund types are used:

GOVERNMENTAL FUND TYPES:

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.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by Skagit County Dike District No. 12 in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account assets that the district holds on behalf of others in a custodial capacity.

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 district also recognizes expenditures paid during 20 days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The Skagit County Dike District No. 12 adopts annual appropriated budgets for operating funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$ 3,000,000	\$ 1,998,918	\$ 1,001,082

Any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Commissioners of Skagit County Dike District No. 12.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to unlimited days and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation or retirement employees do receive payment for unused sick leave. Payments are recognized as expenditures when paid.

G. Other Financing Sources

Proceeds are from sale of capital assets that the commissioners deemed obsolete, \$76,763.  
Compensation is from insurance coverage for loss from mismanagement, \$169,068.

## H. Risk Management

The Skagit County Dike District No. 12 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2015, there are 210 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its Members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is Subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limit of each policy. Since the program is a cooperative program, there is a joint liability among the participation members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$2,140,107.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on the staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2015, were \$627,702.49.

### 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 Skagit County Dike District No. 12. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

### **Note 2 - Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by Skagit County Dike District No. 12. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Skagit County Dike District No. 12 regular levy for the year 2015 was \$1.690069 per \$1,000 on an assessed valuation of \$1,775,075,455 for a total regular levy of \$3,000,000.

### **Note 3 – Deposits and Investments**

It is the Skagit County Dike District No.12 policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by (the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission). All investments are insured, registered or held by the district or its agent in the district's name.

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

<u>Type of Investment</u>	<u>Dike District No. 12's</u> <b>Own</b> investments	Investments held by the district as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ <u>2,419,094</u>	\$ <u>16,114</u>	\$ <u>2,435,208</u>
Total	\$ <u>2,419,094</u>	\$ <u>16,114</u>	\$ <u>2,435,208</u>

**Skagit County Dike District No. 12**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2014**

**Note 1 - Summary of Significant Accounting Policies**

The Skagit County Dike District No. 12 was incorporated on 1895 and operates under the laws of the state of Washington applicable to a dike district. The district is a special-purpose local government and provides flood protection.

The Skagit County Dike District No. 12 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:

GOVERNMENTAL FUND TYPES:

**General Fund**

This fund is the primary operating fund of the Skagit County Dike District No.12. It accounts for all financial resources except those required or elected to be accounted for in another fund.

**Debt Service Funds**

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

## FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by Skagit County Dike District No. 12 in a trustee capacity or as an agent on behalf of others.

### Agency Funds

These funds are used to account assets that Skagit County Dike District No. 12 holds on behalf of others in a custodial capacity.

### 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 district 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 County Dike District No. 12 adopts annual appropriated budgets for operating funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$ 3,000,000	\$ 1,802,340	\$ 1,197,660

Any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Commissioners of Skagit County Dike District No. 12.

### D. Cash and Investments

See Note 3, *Deposits and Investments*.

### E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and as estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

#### F. Compensated Absences

Vacation leave may be accumulated up to unlimited days and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation or retirement employees do receive payment for unused sick leave. Payments are recognized as expenditures when paid.

#### G. Risk Management

The Skagit County Dike District No. 12 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program of organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contraction for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, When 34 cities in the state of Washington joined together by signing an interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive, and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members various needs.

The program acquires liability insurance through their Administrator, Canfield that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limit of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy, with an attachment point of \$3,259,396 to cap the total claims paid by the program in any one policy term.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of **Pumps & Motors which is \$10,000**. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from the three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014 the Board passed a resolution changing the CIAW's renewal date from September 1<sup>st</sup> to December 1<sup>st</sup> beginning with the 2014-15 policy term. An endorsement was added to the 2013-14 Memorandum of Coverage, extending coverage to December 1, 2014. The next full policy year will begin on December 1, 2014. Premiums were prorated for the extension period. Invoices and certificates were issued.

The program has no employees. Claims are filed by members/brokers with Canfield, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2014, were \$1,817,654.59.

#### H. 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 Commissioners. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

#### Note 2 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by Skagit County Dike District No. 12. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Skagit County Dike District No. 12 regular levy for the year 2014 was \$1.76705 per \$1,000 on an assessed valuation of \$1,697,738,528 for a total regular levy of \$3,000,000.

#### Note 3 – Deposits and Investments

It is the district's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by (the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission). All investments are insured, registered or held by district or its agent in the district's name.

Investments are reported at cost. Investments by type at December 31, 2014 are as follows:

<u>Type of Investment</u>	<u>Dike District No. 12's own investments</u>	Investments held by the district as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ 2,014,905	\$ 15,652	\$ 2,030,557
Total	\$ 2,014,905	\$ 15,652	\$ 2,030,557



**Skagit County Dike District No. 12**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Comp. Absences		29,751	4,561	-	34,312
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>29,751</b>	<b>4,561</b>	<b>-</b>	<b>34,312</b>
	<b>Total Liabilities:</b>		<b>29,751</b>	<b>4,561</b>	<b>-</b>	<b>34,312</b>

**Skagit County Dike District No. 12**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2014**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
263.91	Funding Bond	12/1/2014	18,320	-	18,320	-
263.91	Funding Bond	6/1/2014	485,420	-	485,420	-
<b>Total General Obligation Debt/Liabilities:</b>			<b>503,740</b>	<b>-</b>	<b>503,740</b>	<b>-</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Comp.Absences		22,914	6,837	-	29,751
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>22,914</b>	<b>6,837</b>	<b>-</b>	<b>29,751</b>
<b>Total Liabilities:</b>			<b>526,654</b>	<b>6,837</b>	<b>503,740</b>	<b>29,751</b>

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>