Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Island County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006442

Issue Date
September 26, 2011

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 26, 2011

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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January 1, 2010 through December 31, 2010

Federal Summary

Island County
January 1, 2010 through December 31, 2010

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

Internal Control Over Financial Reporting:

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

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We issued an unqualified 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
20.205	ARRA - Highway Planning and Construction (Recovery Act)

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

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

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Island County
January 1, 2010 through December 31, 2010

Board of Commissioners
Island County
Coupeville, Washington

We have audited 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, 2010, which collectively comprise the County’s basic financial statements, and have issued our report thereon September 1, 2011.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the County’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the County's financial statements are free of 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*.

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 1, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Island County
January 1, 2010 through December 31, 2010

Board of Commissioners
Island County
Coupeville, Washington

COMPLIANCE

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, 2010. The County's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the 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, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 1, 2011

Independent Auditor's Report on Financial Statements

Island County
January 1, 2010 through December 31, 2010

Board of Commissioners
Island County
Coupeville, Washington

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, 2010, which collectively comprise the County's basic financial statements as listed on page 9. These financial statements are the responsibility of the County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 10 through 15, budgetary comparison on pages 59 through 60 and information on postemployment benefits other than pensions on page 61 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 1, 2011

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Island County
January 1, 2010 through December 31, 2010

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Discussion of Basic Financial Statements

The financial statements of Island County are prepared under the rules promulgated by the Government Accounting Standards Board (GASB). GASB Statement 34 is the primary source governing the preparation of government financial statements, with further guidance provided by the Budgeting, Accounting, and Reporting System Manual (BARS) issued by the Washington State Auditor.

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

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

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

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

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

The difference between the total assets and the total liabilities reported in a fund is known as "fund balance". Ideally, this amount represents the balance of financial resources available for appropriation at the end of the fiscal period being reported, yet, some of the financial resources may be reserved, and are not currently available for appropriation. Long-term receivables associated with loans to other funds may be financial assets, but not immediately available. Pre-paid expenses are also financial assets that are not immediately available, even though they must be included in the report. Additionally, restrictions involving third parties may make financial resources unavailable for appropriation. Purchase orders or contracts outstanding near the end of the fiscal period render those amounts unavailable for new spending.

A fund balance may be divided into "unreserved," "designated," or "reserved". Unreserved fund balances, subject to the above-mentioned items, are generally available for appropriation. Fund balances may be "designated" by the budgeting authority to indicate that they have tentative plans for using those resources. Designated funds may be changed at the discretion of the budgeting authority, and the designation may be removed or changed. "Reserved" fund balance is a name given to a fund balance that has an external limitation on the use of those resources, e.g. agreements with third parties. Reserved fund balances cannot be re-directed at the discretion of the budgeting authority; some external condition must be removed or changed before these funds are available for other spending.

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

Overall Analysis of Financial Position and Result of Operations

Over time, net assets may serve as a useful indicator of the County's financial position. The overall financial position improved during the year. At December 31, 2010 assets exceeded liabilities by $134 million. The largest component of net assets (73%) reflects the investment in capital assets, less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently the assets are not available for future spending. Although investments in capital assets are reported net of related debt, the resources needed to repay the debt must be provided from other sources. An additional portion of the net assets (21%) represents resources that are subject to restrictions on how they may be used. The remaining balance of $8 million may be used to meet the County's ongoing obligations to citizens and creditors. In 2010, the County's total revenues exceeded expenses resulting in an increase in net assets of $5.1 million. The County's net assets from governmental activities increased by $4.5 million during the current year, and the net assets from business-type activities increased $ .6 million.

On the following page is a Summary of Net Assets and Statement of Activities and Changes in Net Assets prepared on a comparative basis for 2009 and 2010.

Governmental Activities

Net assets of governmental activities increased $4.5 million. The amount invested in capital assets increased $1 million, plus an increase in restricted net assets of $1.8 million, and an increase in unrestricted net assets of $1.7 million. The amount invested in capital assets was primarily due to a $1.4 million net increase in infrastructure, a net decrease in other capital assets of $.9 million, and a decrease in long-term debt of $.5 million.

The restricted net assets increased by $1.8 million due to a $2.8 million increase in restricted net assets for transportation, and a $1 million decrease due to a prior period adjustment of restricted interest as described in the Notes to Financial Statements Note 19. Transportation funds increased as revenues exceeded expenditures for the year by $2.8 million.

The increase in unrestricted net assets of $1.7 million was primarily due to an increase of $1.3 million in the General Fund due to the prior period adjustment of restricted interest as disclosed in the Notes to Financial Statements Note 19. The other $.4 million increase represents various increases such as bond refunding, reduction in liability for compensated absences, and increases in fund balance in unrestricted funds for 2010.

The revenues and expenses of the County are summarized by general activity, e.g., "Public Safety". The funds for primary governmental activities provided total program revenues of $13.8 million and another $33.6 million was provided from taxes and other revenues not specific to a particular program. General revenues increased by $.8 million. Revenues increased for property taxes for Road Fund, excise taxes, E-911 revenue and motor vehicle excise taxes. The property tax increase in the Road Fund was due to the use of $.3 million of the banked levy capacity. The total increase of $1.2 million was partially offset by a decrease in interest revenue, primarily due to a decrease in rates from .7% in 2009 to .2575% in 2010.

The general downturn in the economy and the housing market together with reductions in revenues over the past several years have resulted in cost reductions in the general fund expenditures. In 2010 governmental expenditures were reduced $3.4 million. All functions of governmental activity, except judicial, reflect reductions in expenditures. The General Fund reduced expenditures $1.1 million, the County Road Fund reduced expenditures $.8 million, Rural County Sales Tax Fund $.5 million, and the Conservation Futures Fund reduced expenditures by $2.0 million offset by increased expenditures totaling $1.0 million in the Low Income Housing Fund, Elections Fund, Therapeutic Sales Tax Fund, REET Capital Facilities Fund, Joint Tourism Promotion Fund, and the REET Electronic Technology Fund.

Business-type Activities

The business-type activities increase in net assets of $.6 million was due to revenue exceeding expenditures. Both revenues and expenditures remained at the same level as they were in 2009.

Fund Analysis

The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Unreserved fund balance may serve as a useful measure of net resources available for spending at the end of the year. As of the end of the year 2010, governmental funds reported combined ending fund balances of $33 million, an increase of $ 2.9 million in comparison with 2009. Approximately $3 million increase is in unreserved fund balance and includes prior period adjustments of $.2 million (see notes to Financial Statements Note 19). This is partially offset by a small decrease in the designated fund balance for special revenue funds.

The General Fund, County Road Fund, and Conservation Futures Fund are the County's major governmental funds. The General Fund is the chief operating fund of the County. At the end of the year, unreserved, undesignated fund balance was $4.2 million, which is an increase of $1.5 million for the year. The prior period adjustment comprises $1.3 million of the increase, as disclosed in the Notes to the Financial Statements, Note 19. The remaining increase is primarily due to decreased designated fund balance and reserved fund balance of $.2 million. The change in fund balance for the year was a decrease of $23 thousand without the prior period adjustment.

Summary Statement of Net Assets (In Thousands)

	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current and Other Assets	$ 42,335	$ 38,984	$ 5,612	$ 5,162	$ 47,947	$ 44,146
Capital assets	103,272	102,734	5,397	5,252	108,669	107,986
Total Assets	145,607	141,718	11,009	10,414	156,616	152,132
Liabilities						
Other liabilities	3,565	3,893	420	432	3,985	4,325
Non-Current liabilities	15,467	15,772	2,989	2,984	18,456	18,756
Total Liabilities	19,032	19,665	3,409	3,416	22,441	23,081
Net Assets						
Invested in capital assets, net of related debt	92,986	92,024	5,397	5,252	98,383	97,276
Restricted	27,766	25,931	-	-	27,766	25,931
Unrestricted	5,823	4,098	2,203	1,746	8,026	5,844
Total Net Assets	**$ 126,575**	**$ 122,053**	**$ 7,600**	**$ 6,998**	**$ 134,175**	**$ 129,051**

Summary Statement of Activities & Change in Net Assets (In

	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges for services	$ 5,993	$ 5,987	$ 6,178	$ 6,134	$12,171	$ 12,121
Operating grants and	6,415	6,917	115	203	6,530	7,120
Capital grants & contributions	1,376	3,720			1,376	3,720
Total Program Revenues	13,784	16,624	6,293	6,337	20,077	22,961
General Revenues						
Property taxes	16,058	15,788			16,058	15,788
Sales/Use taxes	7,122	7,128			7,122	7,128
Other taxes	8,199	7,890			8,199	7,890
Penalties and interest	981	1,380	6	15	987	1,395
Other	1,222	572		7	1,222	579
Total General Revenues	33,582	32,758	6	22	33,588	32,780
Total Revenues	47,366	49,382	6,299	6,359	53,665	55,741
Expenses						
General government	7,852	8,206			7,852	8,206
Judicial	3,092	2,992			3,092	2,992
Public safety	10,704	11,013			10,704	11,013
Physical environment	880	1,034	5,341	5,287	6,221	6,321
Transportation	11,192	11,537			11,192	11,537
Health and human services	4,513	4,943			4,513	4,943
Economic environment	3,233	4,264			3,233	4,264
Culture and recreation	1,240	1,973	47	60	1,287	2,033
Interest on long-term debt	447	579			447	579
Total Expenses	43,153	46,541	5,388	5,347	48,541	51,888
Change in Net Assets before Transfers	4,213	2,841	911	1,012	5,124	3,853
Transfers In (Out)	308	337	(308)	(337)		
Change in Net Assets	4,521	3,178	603	675	5,124	3,853
Net Assets, January 1	122,053	118,875	6,998	6,323	129,051	125,198
Net Assets, December 31	**$126,574**	**$ 122,053**	**$ 7,601**	**$ 6,998**	**$ 134,175**	**$ 129,051**

The County Road Fund increased fund balance by $2.1 million as compared to a $3.1 million increase in 2009. The year's grant revenue was $1.8 million less than the prior year as more projects were funded internally. This was partially offset by $.8 million less expenditures primarily due to a decrease in professional services as more engineering was done in house rather than contract.

The Conservation Futures Fund increased fund balance $.5 million. The increase was due to reduced acquisition and expenditures from the Conservation Futures Fund. The fund balance in other governmental funds decreased by $1 million due to the prior period adjustment disclosed in the Notes to the Financial Statements, Note 19. Otherwise there were minimal changes as revenues approximated expenditures for the year.

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

Budgetary Comparisons

Budget variances are reported in the Required Supplementary Information (RSI) as the "Budgetary Comparison Schedule". During the year there was $.9 million increase in the original budget and the final amended budget of the General Fund. The County Road Fund had an increase of $422,400. The Conservation Futures Fund budget had a minimal increase during the year.

The comparison of the final amended budget to actual reflects a variance of budgetary fund balances in the major funds. The budget only reflects the fund balances being used in the budget, whereas the actual column reflects the actual beginning fund balance. In the General Fund, the variance for total resources is $443,270 more than budget and for outflows the variance is $.9 million less than budget. The economic downturn has reduced sales tax and real estate excise tax revenue as well as a major decline in investment interest due to decreased interest rates. In order to prepare for this decline staff was reduced in the general fund and other operating expenditures were cut. The $.9 million decrease in expenditures is due primarily to less equipment purchases and less professional services.

In the Road Fund total resources were under budget by $5.4 million and total expenditures were under budget by $7.5 million. Revenues were under budget primarily due to a decrease in intergovernmental grant revenues. Expenditures were under budget due to a $6.4 million decrease in construction projects deferred until 2011. The remaining decrease was due to contracts less than anticipated and smaller projects not done during the year.

The Conservation Futures Fund revenue was over budget due to intergovernmental revenues from grants of $.3 million. This revenue was 2009 deferred revenue received in 2010. Expenditures were under budget $.4 million as there were less land acquisitions during the year.

Capital Assets and Long-Term Debt Activity

A schedule summarizing capital asset activity is provided in Note 6 and the County's capitalization policies are included in Note 1 E 8. Island County's total investment in capital assets including construction in progress is $109 million, net of accumulated depreciation and amortization. The investment in capital assets includes land, buildings, improvements, machinery and equipment, intangible assets, park facilities, roads, drainage and other infrastructure. Governmental activities capital assets increased $.5 million for the year mainly due to infrastructure construction projects in 2010 of $1.5 million, an increase in intangible assets of $.4 million, and a decrease in other assets of $ 1.4 million.

At the end of the current year the County had total bonded debt outstanding of $10.5 million. The debt is backed by the full faith and credit of the government and represents general obligation bonds. Other long-term debt consists of state loan programs, compensated absences, liability for landfill closures and post closures, OPEB/pension related liabilities, and capital leases. Total long-term debt of the county is $18.5 million. State statutes limit debt to 2.5% of assessed taxable property value. The current debt limit for the county is $326 million, which is significantly in excess of the County's outstanding obligations. Additional information on long-term debt can be found in Note 10.

Other Significant Matters

Unreserved, undesignated fund balance in the General Fund was $4.2 million at the end of 2010. Of this, the County has appropriated $ 150,000 in the 2011 budget. In the Road Fund, $13,113 of the beginning fund balance is appropriated in the 2011 budget. The Conservation Futures Fund has no use of beginning fund balance.

The County General Fund used $3.1 million in fund balance during 2008 and $1.2 million in fund balance for 2009. The county has continued to reduce staff and operating expenditures during 2008, 2009, and 2010 by a total of $4.2 million. For 2010 the county used $23,740 of fund balance. The 2011 budget is anticipated to use $150,000 in fund balance.

The global economic crisis continued to be a major factor in the overall fiscal health of WA State and Island County. Island County was particularly hit hard in 2010 due to plummeting interest rates, reductions in local sales tax, high unemployment, increases in oil prices and the continued decline in the real estate and construction industries. The local real estate and housing market, both in sales of existing homes and new construction starts, has been at a 25 year low, affecting jobs, sales tax and real estate excise tax. Job losses in construction, local government, and private sector brought the unemployment rate in Island County to over 9% in 2010.

Government; comprised of Naval Air Station Whidbey Island (NASWI), Island County government, school districts and cities/towns are the largest employers in Island County. Local governmental agencies were dramatically impacted by the economic downturn. Although NASWI remained a constant source of job retention and some continued job growth due to new and existing contracts, local government agencies did not fare as well. In early 2010 revenue continued to decline, sales tax revenue for 2010 declined and property values decreased at double digit rates.

The largest employer in Island County and North Western Washington between the Canadian Border to Seattle is Naval Air Station Whidbey Island (NASWI). In 2009 NASWI supported the local economy with combined military, civilian and base contractors' payroll of $458 million. Economic impact data for 2010 is currently unavailable from NASWI. NASWI population remained stable in 2010, with a combination of active duty, civilian and contract employees.

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 recent economic downturn increased the number of residents seeking employment off the islands as more employers in the county reduced staff and trimmed budgets.

During the past twenty years, Island County has become a preferred destination for retirees seeking a relaxed lifestyle with affordable property, moderate climate, low crime rate and the lowest property taxes in WA State. Island County is comprised entirely of islands, with two major islands that are well populated and several smaller ones that are uninhabited. The county has good roads, with bridge and ferry access to the mainland.

The slower housing market experienced nationwide resulted in a continued drop in Island County real estate excise taxes in 2010, a trend which is expected to continue throughout 2011. Revenue from new custom construction was dramatically reduced in 2010. A continued decrease in real estate sales prices was noted by local appraisers. The decrease in sales price and revenue is based on the absorption ratio. Available inventory surpassed sales significantly from 2008 through 2010. With inventory growth continuing to outpace sales, income that will be derived from this revenue source is expected to trend downward. Property valuations in 2010 reflect continuing decreases, which are evidenced by further reductions in 2011 property tax valuations.

ISLAND COUNTY, WASHINGTON
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2010

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CASH AND CASH EQUIVALENTS	$ 29,209,860	$ 1,876,016	$ 31,085,876
TAXES RECEIVABLE	942,357		942,357
OTHER RECEIVABLES, NET	1,207,167	553,687	1,760,854
INTERNAL BALANCES	(39,610)	39,610	
DUE FROM OTHER GOVERNMENTS	4,044,465	34,577	4,079,042
INVENTORIES	516,221		516,221
PREPAID ITEMS	398,168		398,168
DEFERRED CHARGES	697,094		697,094
NOTE RECEIVABLE - CURRENT PORTION	187,806		187,806
RESTRICTED ASSETS - CASH SURPLUS INVESTED		2,856,420	2,856,420
INVESTMENTS OF SURPLUS CASH AT FAIR VALUE	4,214,394	251,990	4,466,384
NOTE RECEIVABLE - NONCURRENT PORTION	956,985		956,985
CAPITAL ASSETS - Net of Accumulated Depreciation			
LAND	15,342,559	1,067,537	16,410,096
BUILDINGS AND OTHER IMPROVEMENTS	24,102,967	3,664,483	27,767,450
MACHINERY AND EQUIPMENT	5,930,486	615,152	6,545,638
INFRASTRUCTURE	51,059,620		51,059,620
INTANGIBLES	5,563,343	50,232	5,613,575
CONSTRUCTION IN PROGRESS	1,272,855		1,272,855
TOTAL CAPITAL ASSETS	103,271,830	5,397,404	108,669,234
TOTAL ASSETS	145,606,737	11,009,704	156,616,441
LIABILITIES			
ACCOUNTS PAYABLE	1,444,359	343,947	1,788,306
OTHER CURRENT LIABILITIES	1,626,058	40,557	1,666,615
DUE TO OTHER GOVERNMENTS	61,110	14,719	75,829
ACCRUED LIABILITIES - CURRENT PORTION	433,515	21,162	454,677
NON-CURRENT LIABILITIES			
PAYABLE FROM RESTRICTED ASSETS		2,856,420	2,856,420
ACCRUED LIABILITIES	3,661,877	132,264	3,794,141
DUE WITHIN ONE YEAR	981,952		981,952
BOND PREMIUM	227,033		227,033
DUE IN MORE THAN ONE YEAR	10,596,133		10,596,133
TOTAL LIABILITIES	19,032,037	3,409,069	22,441,106
NET ASSETS			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	92,985,810	5,397,404	98,383,214
RESTRICTED FOR:			
GENERAL GOVERNMENT	809,078		809,078
PUBLIC SAFETY	142,569		142,569
CULTURE AND RECREATION	995,616		995,616
ECONOMIC ENVIRONMENT	4,048,404		4,048,404
MENTAL AND PHYSICAL HEALTH	2,085,106		2,085,106
ROAD AND STREETS	13,111,546		13,111,546
CAPITAL PROJECTS	6,439,676		6,439,676
OTHER PURPOSES	19,306		19,306
PHYSICAL ENVIRONMENT	114,968		114,968
UNRESTRICTED	5,822,621	2,203,231	8,025,852
TOTAL NET ASSETS	$ 126,574,700	$ 7,600,635	$ 134,175,335

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, 2010

FUNCTIONS OF THE PRIMARY GOVERNMENT	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: TOTAL
GOVERNMENTAL ACTIVITIES							
GENERAL GOVERNMENT	$ 7,851,780	$ 891,037	$ 1,121,026	$ 159,103	$ (5,680,614)	$	$ (5,680,614)
JUDICIAL	3,091,976	955,317	922,166		(1,214,493)		(1,214,493)
PUBLIC SAFETY	10,704,772	198,256	783,074	91,703	(9,631,739)		(9,631,739)
PHYSICAL ENVIRONMENT	879,972	40,135	256,766		(583,071)		(583,071)
TRANSPORTATION	11,191,887	603,494	562,447	808,536	(9,217,410)		(9,217,410)
HEALTH AND HUMAN SERVICES	4,512,920	996,582	2,439,085		(1,077,253)		(1,077,253)
ECONOMIC ENVIRONMENT	3,232,824	1,996,805	217,095		(1,018,924)		(1,018,924)
CULTURE & RECREATION	1,240,293	311,645	113,837	316,356	(498,455)		(498,455)
INTEREST ON LONG-TERM DEBT	446,846				(446,846)		(446,846)
TOTAL GOVERNMENTAL ACTIVITIES	43,153,270	5,993,271	6,415,496	1,375,698	(29,368,805)		(29,368,805)
BUSINESS-TYPE ACTIVITIES							
SOLID WASTE	5,340,871	6,153,065	114,968			927,162	927,162
PARK FACILITY MANAGEMENT	46,907	24,672				(22,235)	(22,235)
TOTAL BUSINESS-TYPE ACTIVITIES	5,387,778	6,177,737	114,968			904,927	904,927
TOTAL PRIMARY GOVERNMENT	48,541,048	12,171,008	6,530,464	1,375,698	(29,368,805)	904,927	(28,463,878)
General Revenues							
Taxes							
Property Taxes levied for General purpose					7,152,108		7,152,108
Property Taxes levied for Roads					7,879,561		7,879,561
Property Taxes levied for Other Specific Purpose					1,026,550		1,026,550
Sales and Use Tax					7,122,212		7,122,212
MVFT					6,728,222		6,728,222
Excise Taxes					1,470,549		1,470,549
Miscellaneous					0		0
Penalties and Interest					980,981	6,467	987,448
Cable,E-911					1,241,748		1,241,748
Gain (Loss) on sale of Capital Assets					(19,770)	-	(19,770)
Transfers					308,501	(308,501)	-
Total General Revenues and Transfers					33,890,662	(302,034)	33,588,628
Change in Net Assets					4,521,857	602,893	5,124,750
Net Assets - Beginning					122,052,843	6,997,742	129,050,585
Net Assets Ending					$ 126,574,700	$ 7,600,635	$ 134,175,335

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

ISLAND COUNTY, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2010

	GENERAL FUND	COUNTY ROAD FUND	CONSERVATION FUTURES	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
CASH AND CASH EQUIVALENTS	$ 4,885,690	$ 8,102,119	$ 939,400	$ 13,100,965	$ 27,028,174
TAXES RECEIVABLE	422,051	458,582	39,104	22,620	942,357
OTHER RECEIVABLES, NET	597,344	23,687		379,983	1,001,014
DUE FROM OTHER FUNDS	18,448	70,729		376,504	465,681
INTERFUND LOANS RECEIVABLE	180,000			616,000	796,000
DUE FROM OTHER GOVERNMENTS	1,303,212	1,586,260	642,768	1,181,845	4,714,085
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE	663,447	1,101,757	127,747	1,743,575	3,636,526
TOTAL ASSETS	$ 8,070,192	$ 11,343,134	$ 1,749,019	$ 17,421,492	$ 38,583,837
LIABILITIES AND FUND BALANCES					
LIABILITIES					
ACCOUNTS PAYABLE	$ 285,042	$ 134,685	$ 23,160	$ 861,671	$ 1,304,558
DUE TO OTHER FUNDS	79,381	111,085		388,520	578,986
INTERFUND LOANS PAYABLE			616,000	180,000	796,000
DUE TO OTHER GOVERNMENTS	2	4		61,104	61,110
ACCRUED LIABILITIES	669,401	140,832	184	206,121	1,016,538
DEFERRED REVENUE	511,307	673,236	47,934	581,641	1,814,118
TOTAL LIABILITIES	1,545,133	1,059,842	687,278	2,279,057	5,571,310
FUND BALANCES					
RESERVED FUND BALANCE					
GENERAL SERVICES	4,318				4,318
JUDICIAL SERVICES	61,767				61,767
UNRESERVED, DESIGNATED					
GENERAL FUND	2,214,944				2,214,944
SPECIAL REVENUE FUND			624,155	571,418	1,195,573
UNRESERVED, UNDESIGNATED					
GENERAL FUND	4,244,030				4,244,030
SPECIAL REVENUE FUND		10,283,292	437,586	14,434,695	25,155,573
CAPITAL PROJECTS FUND				136,322	136,322
TOTAL FUND BALANCES	6,525,059	10,283,292	1,061,741	15,142,435	33,012,527
TOTAL LIABILITIES & FUND BALANCES	$ 8,070,192	$ 11,343,134	$ 1,749,019	$ 17,421,492	$ 38,583,837

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 ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

Total fund balances as shown on the Governmental Funds Balance Sheet	$ 33,012,527
Capital Assets used in governmental activities are not financial resources therefore are not reported in the funds	92,603,225
Capital Assets acquired through donation of property value are not included in the funds	1,267,500
Long-term debts are not due and payable in the current period and therefore are not reported in the funds	(11,805,118)
Other Assets are not available to pay current expenditures , such as property taxes and notes receivables and therefore are not reported in the funds.	3,126,773
Internal Service Funds are used by the County to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The assets and liabilities of these funds are included in the governmental activities in the Statement of Net Assets.	12,480,187
Other Liabilities such as Compensated Absences that are not due and payable in the current period and are not reported in the funds.	(4,110,394)
Net Assets of Governmental Activities	$ 126,574,700

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, 2010

	GENERAL FUND	COUNTY ROAD FUND	CONSERVATION FUTURES	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
TAXES	$ 13,343,577	$ 7,764,234	$ 650,490	$ 4,617,798	$ 26,376,099
LICENSES AND PERMITS	987,278	142,211		574,040	1,703,529
INTERGOVERNMENTAL REVENUE	2,871,910	7,833,470	295,218	3,646,671	14,647,269
CHARGES FOR SERVICES	1,776,948	21,860		1,469,106	3,267,914
FINES AND FORFEITS	601,940	1,112		8,833	611,885
INTEREST AND INVESTMENT EARNINGS	109,822	37,525	31,870	76,545	255,762
MISCELLANEOUS	82,571	16,092	4,212	293,439	396,314
TOTAL REVENUES	19,774,046	15,816,504	981,790	10,686,432	47,258,772
EXPENDITURES					
CURRENT					
GENERAL GOVERNMENT	9,631,218	-		898,054	10,529,272
PUBLIC SAFETY	8,297,127			1,711,113	10,008,240
UTILITIES AND ENVIRONMENT	215,104		21,731	698,736	935,571
TRANSPORTATION	-	8,857,181		290,418	9,147,599
ECONOMIC ENVIRONMENT	1,583,490			1,433,654	3,017,144
MENTAL & PHYSICAL HEALTH	-			4,524,164	4,524,164
CULTURE & RECREATION	179,067			991,558	1,170,625
DEBT SERVICE					
PRINCIPAL	373	165,000	189,460	645,148	999,981
INTEREST	3,589	13,016	65,595	377,878	460,078
CAPITAL OUTLAY	515,545	3,103,319	75,421	571,646	4,265,931
TOTAL EXPENDITURES	20,425,513	12,138,516	352,207	12,142,369	45,058,605
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(651,467)	3,677,988	629,583	(1,455,937)	2,200,167
OTHER FINANCING SOURCES(USES)					
PROCEEDS OF LONG TERM DEBT				5,687,138	5,687,138
OTHER NONREVENUES				113,118	113,118
DISPOSITION OF CAPITAL ASSETS	-	5,065		412	5,477
TRANSFERS IN	2,068,139	79,222		1,973,267	4,120,628
OTHER NONEXPENDITURES				(143,437)	(143,437)
OTHER GOVERNMENTAL PAYMENTS	-			(5,484,940)	(5,484,940)
TRANSFERS (OUT)	(1,440,412)	(1,688,742)	(4,228)	(679,248)	(3,812,630)
TOTAL OTHER SOURCES (USES)	627,727	(1,604,455)	(4,228)	1,466,310	485,354
NET CHANGE IN FUND BALANCES	(23,740)	2,073,533	625,355	10,373	2,685,521
FUND BALANCES, AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED	5,239,449	8,209,759	558,003	16,158,223	30,165,434
PRIOR PERIOD ADJUSTMENT	1,309,350		(121,617)	(1,026,161)	161,572
FUND BALANCES, AT BEGINNING OF YEAR RESTATED	6,548,799	8,209,759	436,386	15,132,062	30,327,006
FUND BALANCES, AT END OF YEAR	$ 6,525,059	$ 10,283,292	$ 1,061,741	$ 15,142,435	$ 33,012,527

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, 2010

Net Change in Fund Balances for Governmental Funds	$ 2,685,521
Governmental funds report capital outlay as expenditure. However in the Statement of Activities, the cost of the assets is allocated over the estimated useful lives as depreciation expense.	1,215,241
Proceeds of notes receivable provide current resources to governmental funds but decrease assets in the Statement of Net Assets.	20,466
Debt proceeds provide current financial resources to governmental funds but debt increases long-term liabilities in the Statement of Net Assets	(202,199)
The issuance of long-term debt provides current financial resources to governmental funds, while repayments of bond principal and other long-term note payments are expenditures in governmental funds. Neither transaction has any effect on net assets. Governmental funds report the effect of refundings, issuance costs, premiums, and similar items when debt is first issued , whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences ibn the treadment of long-term debt and related items.	999,981
Internal Service Funds are used by the County to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The net costs of the internal service funds are reported with the governmental activities in the Statement of Activities.	(231,755)
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.	34,602
Changes in Net Assets of Governmental Activities on the Statement of Activities	$ 4,521,857

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

ISLAND COUNTY, WASHINGTON

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

AS OF DECEMBER 31, 2010

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS				
CASH	$ 2,106,608	$ (230,592)	$ 1,876,016	$ 2,431,686
DUE FROM OTHER FUNDS				185,954
OTHER RECEIVABLES, NET	553,687		553,687	36,228
DUE FROM OTHER GOVERNMENTS	34,577		34,577	29,535
NOTES RECEIVABLE - CURRENT PORTION				
INVENTORIES				516,221
PREPAID ITEMS				398,168
TOTAL CURRENT ASSETS	2,694,872	(230,592)	2,464,280	3,597,792
NONCURRENT ASSETS				
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE	1,129	250,861	251,990	327,868
RESTRICTED ASSETS - CASH	2,856,420		2,856,420	
CAPITAL ASSETS - Net of Accumulated Depreciation				
LAND	559,890	507,647	1,067,537	781,692
BUILDINGS AND OTHER IMPROVEMENTS	2,986,838	677,645	3,664,483	3,315,843
MACHINERY AND EQUIPMENT	615,152	-	615,152	5,303,570
INTANGIBLE ASSETS	50,232		50,232	-
TOTAL NON-CURRENT ASSETS	7,069,661	1,436,153	8,505,814	9,728,973
TOTAL ASSETS	9,764,533	1,205,561	10,970,094	13,326,765
LIABILITIES				
CURRENT LIABILITIES				
ACCOUNTS PAYABLE	381,029	3,475	384,504	159,181
DUE TO OTHER FUNDS	27,889	318	28,207	44,442
DUE TO OTHER GOVERNMENTS	14,704	15	14,719	
OTHER CURRENT LIABILITIES				551,000
TOTAL CURRENT LIABILITIES	423,622	3,808	427,430	754,623
NONCURRENT LIABILITIES				
PAYABLE FROM RESTRICTED ASSETS	2,856,420		2,856,420	
COMPENSATED ABSENCES	153,426		153,426	24,138
TOTAL NONCURRENT LIABILITIES	3,009,846		3,009,846	24,138
TOTAL LIABILITIES	3,433,468	3,808	3,437,276	778,761
NET ASSETS				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	4,212,112	1,185,292	5,397,404	9,401,105
UNRESTRICTED	2,118,953	16,461	2,135,414	3,146,899
TOTAL NET ASSETS	$ 6,331,065	$ 1,201,753	7,532,818	$ 12,548,004
Adjustments to reflect consolidation of internal service fund activities related to enterprise funds			67,817	
Net Assets of business-type activities			$ 7,600,635	

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

ISLAND COUNTY, WASHINGTON

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the Year Ended December 31, 2010

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenue				
Charges for services	$ 6,155,863	$	$ 6,155,863	$ 814,437
Equipment and space rents		24,615	24,615	2,249,950
Sales of merchandise				857,131
Miscellaneous revenue	(2,798)		(2,798)	-
Total operating revenues	6,153,065	24,615	6,177,680	3,921,518
Operating Expenses				
Wages and benefits	1,353,627	10,317	1,363,944	657,072
Maintenance and operation	3,480,062	19,558	3,499,620	2,387,281
Landfill Post Closure Costs	156,050	-	156,050	-
Depreciation	345,961	17,032	362,993	1,122,425
Total operating expenses	5,335,700	46,907	5,382,607	4,166,778
Net operating income(loss)	817,365	(22,292)	795,073	(245,260)
Non-Operating Revenue (Expense)				
Interest Income	6,467	-	6,467	14,097
Interest expense	-		-	
Operating Grants	114,968	57	115,025	
Disposition of capital assets	-		-	(6,266)
Total non-operating income	121,435	57	121,492	7,831
Net income before transfers	938,800	(22,235)	916,565	(237,429)
Transfers in		9,161	9,161	182,000
Transfers out	(316,562)	(1,100)	(317,662)	(181,497)
Change in Net Assets	622,238	(14,174)	608,064	(236,926)
Total Net Assets - Beginning as Previously Reported	5,708,827	1,215,927		12,946,504
Prior Period Adjustment				(161,574)
Total Net Assets - Beginning as Restated	5,708,827	1,215,927		12,784,930
Total Net Assets - Ending	$ 6,331,065	$ 1,201,753		$ 12,548,004
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(5,171)	
Change in net assets of business-type activities			$ 602,893	

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, 2010

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities				
Receipts from Operations	$ 6,131,451	$ 24,615	$ 6,156,066	$ 3,891,596
Payments for Wages and Benefits	(1,342,280)	(10,312)	(1,352,592)	(666,427)
Payments to Suppliers for Goods and Services	(3,267,514)	(15,476)	(3,282,990)	(2,244,969)
Payments for Landfill Closure Costs	(156,050)		(156,050)	
Internal Activity - Payments to Other Funds	(242,091)	(2,421)	(244,512)	
Net Cash Provided (used) by Operating Activities	1,123,516	(3,594)	1,119,922	980,200
Cash Flows from Non-Capital Financing Activities:				
Operating Grants	181,123	57	181,180	
Miscellaneous				358
Restricted Cash				
Transfers	(316,562)	8,315	(308,247)	(95,097)
Net Cash Provided (Used) by Non-Capital Financing Activities	(135,439)	8,372	(127,067)	(94,739)
Cash Flows from Capital and Related Financing Activities				
Purchases of Capital Assets	(503,846)	(4,976)	(508,822)	(478,367)
Cash received from Sale of Capital Assets				37,035
Net Cash Used for Capital and Related Financing Activities	(503,846)	(4,976)	(508,822)	(441,332)
Cash Flows from Investing Activities				
Interest on Investments	6,466		6,466	14,097
Net Cash Provided by Investing Activities	6,466		6,466	14,097
Net Increase (Decrease) in Cash and Cash Equivalents	490,697	(198)	490,499	458,226
Cash and Cash Equivalents at Beginning of Year	1,617,040	20,467	1,637,507	2,301,328
Cash and Cash Equivalents at End of Year	2,107,737	20,269	2,128,006	2,759,554
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	817,365	(22,292)	795,073	(245,260)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	345,961	17,032	362,993	1,122,425
Change in IBNR				141,515
Changes in Assets and Liabilities				
Accounts Receivable, Net	(24,411)		(24,411)	(4,080)
Inventory				54,056
Accounts Payable	(28,487)	1,666	(26,821)	(78,227)
Compensated Absences	5,045		5,045	1,515
Landfill Liability				
Other Operating Assets	14,704		14,704	
Interfund Activity	(6,661)		(6,661)	(11,744)
Total Adjustments	306,151	18,698	324,849	1,225,460
Net Cash Provided by Operating Activities	$ 1,123,516	$ (3,594)	$ 1,119,922	$ 980,200

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2010

		AGENCY FUNDS
ASSETS		
CASH	$	20,148,839
INVESTMENTS, AT FAIR VALUE		25,055,866
TAXES RECEIVABLE		5,271,671
OTHER RECEIVABLES, NET		2,245
DUE FROM OTHER GOVERNMENTS		108
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE		2,572,491
TOTAL ASSETS	$	53,051,220
LIABILITIES		
ACCOUNTS PAYABLE	$	47,779,549
DEFERRED REVENUE		5,271,671
TOTAL LIABILITIES	$	53,051,220

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. The County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting of Intangible Assets beginning with the 2010 reporting year. The significant accounting policies are described below.

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

The government-wide statement of net assets and statement of changes in net assets present information about the County as a whole on a full accrual basis. All County funds except fiduciary and agency funds are included in the statements. For the most part interfund activity has been removed from these statements. The statements distinguish between governmental activities and business-type activities. Governmental activities are supported by taxes and intergovernmental revenues. Business-type activities significantly rely on fees and charges to external parties for goods and services.

The statement of activities shows the direct expenditures and program revenues of governmental activities by function. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers and users of goods or services provided by a given function and grants or contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not specific to a particular program are reported as general revenues. Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual funds are reported in separate columns in the fund financial statements. These statements also report governmental revenues and expenditures by function. The County reports the following functions:

- General Government – Legislative and administrative services, including judicial, recording, elections, financial services, legislative, personnel administration, risk management, and facility management.
- Public Safety – Protection and safety of the citizens at large, including expenses for law enforcement, prevention services, inspections, regulatory enforcement, detention and corrections, emergency services, and juvenile services.
- Utilities and Environment – Programs that improve the physical environment of the community and citizens of the County including natural resources, water, solid waste, drainage and animal control.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when 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. The modified accrual basis differs from accrual basis in the following ways:

1. Purchases of capital assets are considered expenditures.
2. Redemptions of long-term debt are considered expenditures when due.
3. Revenues are recognized only when they become both measurable and available to finance expenditures of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current period liabilities. For this purpose the County considers revenues available if they are collected within 60 days. Revenues which are measurable but not available are recorded as receivable and offset by deferred revenues. Taxes (including property, sales, fuel, excise, etc.), licenses, franchise, interest, grants, and intergovernmental revenues associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Note payments received from Notes Receivable are recognized as revenue when received. All other revenue items are considered to be measurable and available only when cash is received.
4. Inventories and prepaid items are reported as expenditures when purchased.
5. Interest on long-term debt is not accrued but is recorded as an expenditure when due.
6. Accumulated unpaid vacation, sick pay and other employee benefits are considered expenditures when paid or expected to be liquidated with expendable available financial resources (see Note 1-E-9).

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

- The General Fund is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for separately.
- The County Road Fund is used to account for the construction, preservation, and maintenance of county streets, and roads and the design and coordination of county-wide public works projects. The fund was established in accordance with RCW 36.33.220. Revenue is primarily derived from road and other taxes and from state and federal grants.
- The Conservation Futures Fund is used to account for the property tax levied under RCW 84.34.230 which allows up to $0.0625 per $1,000 of assessed value. For 2010 collections the county levied $0.0450. Revenues derived from this tax are restricted to expenditures for acquisition of open space, agricultural and timberland pursuant to RCW 84.34.210 and 84.34.220.
- The Solid Waste Fund is reported on the proprietary funds statements. The fund is administered by Public Works and accounts for the operations, capital improvements and debt service of the county Solid Waste Facilities. Revenue comes from the collection of fees at the facilities.

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. The individual funds are summarized by fund type in the fund financial statements. The following are the fund types and account groups used by the County:

GOVERNMENTAL FUND TYPES

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available expendable resources". Governmental fund operating statements focus on measuring changes in financial position rather than net income; they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net total assets. The unreserved 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 revenues derived from specific taxes, grants, or other sources, which are designated to finance particular activities of the County.

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.

Enterprise Funds - These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. The County maintains two enterprise funds: a solid waste management fund and a park facility management fund.

Internal Service Funds - These funds account for operations that provide goods or services to other departments or funds of the County or to other governmental units on a cost reimbursement basis. The County maintains three internal service funds. Equipment Rental and Revolving Fund was established to finance the maintenance and operation of equipment used by the Public Works Department and other departments. The fund also maintains an inventory of road construction equipment. Another fund was established for risk management. The Insurance Reserve fund accounts for outside insurance, self-insurance, claims, and operates the safety program. The Motor Pool fund was established to acquire, maintain, and track County owned vehicles.

FIDUCIARY FUND TYPES

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

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

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets for fiscal year 2010 are adopted for the general, special revenue, and proprietary funds on the modified accrual cash basis of accounting for 2010 expenditures paid in 2010 and January 2011. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

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

2. Amending the Budget

Transfers or revisions within funds are allowed with the approval of the County Board of Commissioners. Supplemental or emergency appropriations may be approved by the commissioners after holding a public hearing. The budget amounts shown in the financial statements are the final authorized amounts as revised.

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

E. Assets, Liabilities, and Equities

1. Cash and Equivalents – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturity of 90 days or less. It is the County's policy to invest all temporary cash surpluses, those funds not required for immediate expenditure. At December 31, the Treasurer was holding surplus cash of $46,773,314 in short-term investments and $6,800,000 in long-term investments for all public entities required to deposit funds with the County Treasurer. The short-term investments are classified on the balance sheet as cash. The long-term investments are allocated to the various funds based on cash held in each fund at December 31, 2010. The interest on these investments for all fiduciary, trust, and agency funds is credited to the General Fund. The interest for government funds, without resolutions directing investments, is prorated to the various funds and recorded as operating transfers-out to the General Fund.

2. Investments – See Deposits and Investments 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.) Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. Interest receivable consists of accrued interest on investments and cash equivalents, and notes at the end of the year.

4. Amounts Due To and From Other Funds, and Interfund Loans – Activity between funds that represent borrowing arrangements outstanding at the end of the year are referred to as interfund loans. All other outstanding balances between funds are reported as due to/from other funds. Due To and Due From Other Funds include short-term interfund receivables and payables. Any balances between governmental activities and business-type activities are reported as internal balances in the government-wide statement. At the year-end, there were two interfund loans, one from the General Fund to the Public Health Pooling Fund with a balance due at December 31 of $180,000. As the General Fund provides funding to the Public Health Pooling Fund no interest will be charged for the loan. The other interfund loan was from REET 2 to the Conservation Futures Fund with a balance due of $616,000. The loan was necessary to ensure adequate resources and operating cash flow remains available within the Conservation Futures program. The loan is payable annually beginning in 2010 and interest at the State Invested Pool rate shall be paid annually on the unpaid principal balance. A payment of $270,000 was made in 2010. The loan shall be paid in full on or before December 31, 2014.

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

5. Amounts Due To and Due From Other Governmental Units - These accounts include amounts due to or due from other governments for grants, entitlements, temporary loans, taxes, operating advances, and charges for services.

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

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

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

8. Capital Assets - (See Note 6.) Capital assets which include property, plant, equipment, infrastructure (e.g., roads, sidewalks, etc.), and intangible assets are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add value to the asset or materially extend the useful life of the asset are not capitalized.

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

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

9. Accrued Liabilities – Total accrued liabilities for the primary government consist of compensated absences of $3,470,196 and other post employment benefits payable of $778,623. Compensated absences are absences for which employees will be paid, such as comp time, vacation and sick leave. The County records all vacation and sick leave liability when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

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

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

11. Deferred Revenues - This account includes amounts recognized as receivables but not revenues in governmental funds statements because the revenue recognition criteria have not been met.

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

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 Assets are included in the Financial Statements. Following are the details of this reconciliation.

1. Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Balance of Capital Assets at beginning of year	$ 91,378,066
Assets acquired during 2010	4,275,849
Current year assets disposition	(18,981)
Less Current year depreciation expense	(3,031,709)
Total	$ 92,603,225

2. Capital Assets acquired through donation of property value are not financial resources and therefore are not reported in the funds.	$ 1,267,500

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

Balance of long-term debt at beginning of year	$ (12,123,201)
Current year principal payments	999,982
Current year loan proceeds	(475,718)
Current year bond premium proceeds	(223,701)
Current year amortization of Bond Premium	17,520
Total	$ (11,805,118)

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

Property tax receivable at end of year	$ 718,366
District Court receivables not available to finance expenditures	540,561
Note receivable balance water quality assistance at end of year	370,636
Debt refunding and issuance costs	672,147
Grant revenue receivable at end of year	569,091
Assets held for resale	24,947
Other receivables	156,025
Revenues receivable not available to finance expenditures	75,000
Total	$ 3,126,773

5. Internal Service Funds are used by the County to charge the costs of activities, such as insurance, equipment, and motor pool to individual funds. The assets and liabilities of these funds are included in governmental activities in the Statement of Net Assets.

Net Assets of Insurance Reserve Fund applicable to governmental funds	$ 354,282
Net Assets of Motor Pool Fund applicable to governmental funds	998,714
Net Assets of Equipment Rental and Revolving Fund applicable to governmental funds	11,127,191
Total	$ 12,480,187

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

Compensated absences payable at end of year	$ (3,292,631)
Other Post Employment Benefits payable at end of year	(778,623)
Interest due on long-term debt and other payables at year-end	(39,140)
Total	$ (4,110,394)

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 this reconciliation.

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

Assets acquired during 2010	$ 4,265,931
Less Current year depreciation expense	(3,031,709)
Less Current year assets disposition	(18,981)
Total	$1,215,241

2. Proceeds of notes receivable provide current resources to governmental funds but decrease assets in the Statement of Net Assets. $20,466

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

Debt Issue of Refunding Bonds	$(5,320,000)
Premium on Refunding Bonds	(223,701)
Refunding Bond Payment to Escrow	5,484,939
Proceeds from other Debt	(143,437)
Total	$ (202,199)

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

LTGO Bond payments	$ 870,000
Capital Lease payments	374
Other Debt principal	129,607
Total	$ 999,981

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

Change in Net Assets of Insurance Reserve Fund applicable to governmental funds	$ (69,850)
Change in Net Assets of Motor Pool Fund applicable to Governmental funds	(259,416)
Change in Net Assets of Equipment Rental and Revolving Fund applicable to governmental funds	97,511
Total	$ (231,755)

6. 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.

Compensated absences not available to finance expenditures	$ 138,314
Interest due on long-term debt and other payables	13,232
Property tax levy not recognized as revenue	225,949
Other Post Employment benefits payable not requiring resources	(145,011)
Revenue receivable not available to finance expenditures	(197,882)
Total	$ 34,602

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

All funds except Paths and Trails and Public Health Pooling have a positive fund balance. The Paths and Trails Fund had a deficit balance of $10,061. The deficit is covered by deferred grant revenue of $56,367. The Public Health Pooling Fund had a deficit fund balance of $203,881 as of December 31, 2010. The fund decreased the prior year's deficit. The general fund loaned the fund $300,000 in 2008 to cover the deficit. If the fund does not continue to decrease the deficit, the general fund will make an operating transfer to correct the deficit. The remainder of the deficit is covered by deferred grant revenue of $105,924. The 2010 annual budget was adopted on the modified accrual cash basis which includes 2010 expenditures paid in 2010 and in January 2011. For the year ended December 31, 2010, expenditures exceeded appropriations in the following funds:

- County Law Library Fund $1,184. The over expenditure was funded by available fund balance.
- Storm and Surface Water Fund $3,352. The over expenditure was funded by an operating transfer from Road to cover the bond payments as revenue was less than estimated.
- Extension Services Fund $28,790. The over expenditure was due to a large accrual at year end and funded by available fund balance.
- Four funds over expended by amounts less than $50. These were due to non cash expenditures which all had revenue to offset the amounts.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Following are the details of the investments:

	Cost	Fair Value
Investments of Surplus Cash		
Cash Equivalents		
State Treasurer's Investment Pool	$ 46,728,643	$ 46,728,643
Total Cash Equivalents	46,728,643	46,728,643
Non-Current Investments		
Certificates of Deposit	5,000,000	5,000,000
U.S. Agency Issues	1,837,821	1,844,671
Total Investments of Surplus Cash	53,566,464	53,573,314
Other Investments		
Certificates of Deposit	1,000,000	1,000,000
State Treasurer's Investment Pool	24,305,867	24,305,867
Total Other Investments	25,305,867	25,305,867
Total Investments	$ 78,872,331	$78,879,181

NOTE 5 – PROPERTY TAXES

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

PROPERTY TAX CALENDAR

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

Property taxes are recorded as a receivable when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The County may levy up to $1.80 per $1000 of assessed valuation for general governmental services. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The regular levy for 2010 was $7.91 per $1,000 on an assessed valuation of $13.0 billion. The County levied the following property taxes on the 2010 Levy for 2011 collection.

Purpose of Levy	Levy Rate per $1,000	Total Levy Amount
General Government	$ .55704	$7,269,164
Road Levy	.73215	7,971,659
Mental Health Levy	.01225	159,856
Developmental Disability	.01225	159,856
Conservation Futures	.05101	665.744
Total	$1.3647	$16,226,279

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2010 was as follows:

Governmental Activities	Beginning Balance 1/1/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital assets, not being depreciated or amortized:				
Land	15,328,086	14,473		15,342,559
Construction in progress	1,089,320	1,664,267	(1,480,732)	1,272,855
Intangible Assets	3,988,676	144,389		4,133,065
Total capital assets, not being depreciated or amortized	20,406,082	1,823,129	(1,480,732)	20,748,479
Capital assets being depreciated or amortized:				
Buildings	35,564,927	31,643		35,596,570
Intangible Assets	2,267,848	596,948	(352,727)	2,512,069
Improvements other than buildings	5,006,546	141,658		5,148,204
Machinery and equipment	18,857,388	511,842	(585,551)	18,783,679
Infrastructure	63,221,091	3,129,728		66,350,819
Total capital assets being depreciated or amortized	124,917,800	4,411,819	(938,278)	128,391,341
Less accumulated depreciation or amortization for:				
Buildings	(13,298,043)	(666,759)		(13,964,802)
Intangible Assets	(1,099,251)	(330,856)	348,316	(1,081,791)
Improvements other than buildings	(2,510,845)	(166,160)		(2,677,005)
Machinery and equipment	(12,137,101)	(1,243,414)	527,322	(12,853,193)
Infrastructure	(13,544,254)	(1,746,945)		(15,291,199)
Total accumulated depreciation or amortization	(42,589,494)	(4,154,134)	875,638	(45,867,990)
Total capital assets, being depreciated or amortized, net	82,328,306	257,685	(62,640)	82,523,351
Governmental activities capital assets, net	**102,734,388**	**2,080,814**	**(1,543,372)**	**103,271,830**

Business-Type Activities	Beginning Balance 1/1/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital assets, not being depreciated:				
Land	1,067,537			1,067,537
Total capital assets, not being depreciated	1,067,537			1,067,537
Capital assets being depreciated or amortized:				
Buildings	2,432,592	23,145		2,455,737
Intangible Assets	59,096			59,096
Improvements other than buildings	4,295,413	397,867		4,693,280
Machinery and equipment	2,280,683	87,810		2,368,493
Total capital assets being depreciated or amortized	9,067,784	508,822		9,576,606
Less accumulated depreciation or amortization for:				
Buildings	(957,840)	(70,818)		(1,028,658)
Intangible Assets	(2,955)	(5,909)		(8,864)
Improvements other than buildings	(2,263,522)	(192,354)		(2,455,876)
Machinery and equipment	(1,659,429)	(93,912)		(1,753,341)
Total accumulated depreciation or amortization	(4,883,746)	(362,993)		(5,246,739)
Total capital assets, being depreciated or amortized, net	4,184,038	145,829		4,329,867
Business-type activities capital assets, net	**5,251,575**	**145,829**		**5,397,404**

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

Governmental Activities	Amount
General Government	$ 557,527
Public Safety	557,374
Physical Environment	5,939
Transportation	2,599,536
Economic Environment	136,571
Health and Human Services	143,859
Culture and Recreation	153,328
Total Depreciation and Amortization– Governmental Activities	4,154,134

Business-Type Activities	Amount
Solid Waste	$ 345,961
Four Springs Lake Preserve	17,032
Total Depreciation and Amortization – Business-Type Activities	362,993

A. Beginning balances in Land have been reduced by $3,988,676, the amount now separately classified as Intangible Assets in accordance with GASB 51. This balance represents County Easements and Right of Way as of January 1, 2010. These balances are not being depreciated or amortized as they have an indefinite life. Beginning balances in Machinery and Equipment have been reduced by $2,267,848 for Governmental Activities and $59,096 for Business Type Activities, amounts now separately classified as Intangible Assets (Software). The associated beginning accumulated depreciation balances of $(1,099,251) for Governmental Activities and $(2,955) for Business Activities have been reclassified to beginning balances, accumulated amortization for Intangible Assets.

B. Collections Not Capitalized:

The County has no collections that are not capitalized as of December 31, 2010

C. Construction Commitments

The County has construction-in-progress projects as of December 31, 2010. At year-end the government's commitments with contractors are as follows:

Project		Spent to Date		Remaining Commitment
Parks Plan		$62,862		$26,946
Transfer Station Expansion		$308,540		$122,240
JDC and Jail Controls		$578,780		$28,620
Jail Controls Upgrade		-		$639,460
Legal Services		$11,086		$8,914

NOTE 7 – PENSION PLANS

Substantially all 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 and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from 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* No. 50, *Pension Disclosures, an Amendment of GASB Statements* No. 25 and No. 27.

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

Plan Description

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.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts, and employees of local governments.

PERS 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 exercise 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service or at the age of 60 with five years of service, or at age 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFT. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also 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 payable to the age of 60. The allowance 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. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance 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. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

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

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring freedom or Persian Gulf, Operation Iraqi Freedom*.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

Judicial Benefit Multiplier

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

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

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	53,896
Total	262,166

<u>Funding Policy</u>

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010 are as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 7.89% for Plan1 and 5.31% for Plan2 and Plan 3.
***Plan 3 defined benefit portion only.
****The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% 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*	7.81%	7.81%	7.81%**
Employer- Local Govt.*	5.31%	5.31%	5.31%**
Employee-State Agency	9.76%	7.25%	7.50%***
Employee-Local Govt.	12.26%	9.75%	7.50%***

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	$ 28,519	$ 639,610	$ 119,238
2009	$ 53,029	$ 900,072	$ 163,335
2008	$ 60,738	$ 981,343	$ 175,084

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF 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. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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 for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (20 If 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 FAS, divided equally.

A one-time duty-related death benefit is provided to the estate or duty designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months.) Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent 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 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction 3 percent for each year prior to age 53. A catastrophic 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 severely 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 allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS in not subject to federal income tax.

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

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

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

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

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Non-vested	3,944
Total	27,435

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010 are as follows:

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

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for ports and universities is 8.62%.
Both the 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
2010	$ 0	$ 138,099
2009	$ 0	$ 156,562
2008	$ 0	$172,914

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

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

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

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

To be eligible for PSERS, an employee must work on a full-time basis and have one of the following:

- 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.
- Primary responsibility to ensure the custody and security of incarcerated or probationary individuals.

- Limited authority to function as a Washington peace officer, as defined RCW 10.93.020.
- Primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.
PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at age 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 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. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Seattle Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. 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).

PSERS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) my purchase service credit on behalf of the deceased member.

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

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2009.

Retirees and Beneficiaries Receiving Benefits	2
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	4,340
Total	4,342

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, were as follows:

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

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

Both the 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
2010	$ 53,144
2009	$ 60,878
2008	$ 54,815

Deferred Compensation Plan

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

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

NOTE 8 – RISK MANAGEMENT

Island County was one of the twenty-eight members of the Washington Counties Risk Pool ("Pool") during 2010. Other members included: Adams, Benton, Chelan, Clallam and Clark, Columbia, Cowlitz, Douglas and Franklin, Garfield, Grays Harbor, and Jefferson, Kittitas, Lewis and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Kitsap County terminated its membership September 30, 2010. Klickitat and Whitman Counties were former Pool members, but terminated their memberships effective October 2002 and 2003 respectively.

Contingent Liability: The pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits resulting from any of the Pool's fiscal years are financed by proportional reassessments (aka retroactive assessments) against the particular year's membership.

The Pool's reassessments receivable balance at December 31, 2010 remains at $0.

Joint Self-Insurance Liability Program: The Pool has been providing its member counties with occurrence-based jointly self-insured and/or jointly purchased liability coverage since October 1, 1988 for 3rd-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, including public officials' errors and omissions. Total coverage limits have grown from the $1 million and onto $15 million before reaching the $20 million occurrence limit existing the past seven years. (Note: Additional limits of $5 million have been available several recent years as an option for acquisition by individual member counties.)

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

The Pool's claims database increased during Py2010 with the addition of 769 new claims (and lawsuits) raising the 3rd-party liability claims to-date total submitted by member counties to 17,238. Estimates of incurred losses (payments made plus reserve estimates for open claims) increased $17.8 million during the year to $221.4 million.

Washington Counties Property Program: Since the Pool began offering a fully-insured and jointly-purchased property insurance coverage to its membership in October 2005 as an individual county option, participation has grown by more than 50% and the total value of covered properties has nearly doubled. Twenty seven member counties with covered properties totaling $2.76 billion participated in this program during Py2010.

Coverage is for structures, vehicles, mobile equipment, EDP equipment, etc., and composite limits include $500 million for normal (All Other Perils) exposures and $200 million for catastrophe (Flood/Earthquake) exposures. Occurrence deductibles, which the participating counties are solely responsible for, range between $5,000 and $50,000 for the AOP coverage.

Superior-rated commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. There were 7 property claims submitted for processing during Py2010 with incurred losses-to-date totaling $0.33 million. But during its first five years as an optional WCRP insuring program, there have been 65 property claims filed with incurred losses-to-date totaling nearly $9 million.

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

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

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

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

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

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

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

Staffing and Support Teams: The Pool's 5-person claims staff with more than eighty years combined claims-handling experience handles or oversees the handling of the several hundred liability cases filed each year upon the Pool's member counties each year. This includes establishing reserves for reported and unreported covered events and estimating undiscounted future cash payments for losses and related claims adjustment expenses. Other Pool staffers provide various member services, including conduction risk assessments and compliance audits, coordinating numerous trainings, researching other coverages and marketing. Some address and support the organization's administrative needs.

Professionals from some of the most respected organizations worldwide are called upon regularly to address specific needs of the Pool. For example, independent actuarial services are furnished by PricewaterhouseCoopers, LLP; insurance producer (brokerage) and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; coverage counsel is provided by Stafford Frey Cooper; and independent claims auditing will be conducted by Strategic Claims Directions LLC with special claims audits frequently performed by the Pool's contracted and in-county counselors assigned to defend Pool cases as well as the State Risk Manager and the State Auditor.

Financial Summary; The following constitute the more significant highlights from the Pool's most recently completed Policy (Fiscal) Year (October 2009 through September 2010):

- *Net Operating Income* was realized of $1.8 million, a 59% increase from the prior year.

- *Total Assets* grew $3.2 million (9%) to $38.9 million. Current assets increased $3.1 million (9%) while non-current assets increased $0.1 million (12%).

- *Total Claims Reserves* for the Pool's direct reserving exposures increased to $14.0 million, up 7% from the prior year. This total includes: $6.1 million for losses in the Pool-only retained layer, down 13%; $7.0 million for losses within the aggregated stop losses of the "corridor" program for automobile and general liabilities, up 37%; and $0.9 million for unallocated loss adjustment expenses, down 2% from one year ago. NOTE: *The corridor program is only four years old and not fully matured. Its occurrence coverage maximum was increased to one million dollars in Py2010, up from the half million level that existed during the program's first three years. The program's occurrence minimum remains the greater of the applicable member's deductible or $100,000.*
- *Net Assets* (aka *Members' Equity*) increased nearly $2 million to $10.2 million as of September 30, 2010. Of the total, $5.8 million is classified as Restricted Net Assets---$1 million to satisfy the State's solvency provisions (WAC 82.60.03001) plus $4.8 million for the Pool's Underwriting Policy requirements. $0.2 million is invested in a real property (fraud) recovery and another $1 million in Capital Assets (net of debt). The remaining $3.2 million is Non-Restricted Net Assets that is available for use as directed by the Board of Directors.

NOTE 9 – SHORT-TERM DEBT

The County has no short-term debt as of December 31, 2010. Current portion of the long-term debt payments are shown in Note 10.

NOTE 10 – LONG-TERM DEBT

A. Long-term Debt

The County issues general obligation bonds to finance the purchase of equipment and the construction of capital projects. In 2010 and in prior years, bonded indebtedness has been entered into to advance refund general obligation bonds. General obligation bonds have been issued for both general government and proprietary activities and are being repaid from the applicable resources. All bonds issued for proprietary activities were paid off during 2007, only governmental funds have bond debt payable at December 31, 2010. The County is also liable for State Revolving Loans which are considered obligations of the general government and are being repaid with general governmental revenue.

In the government-wide statements unamortized debt issue costs are recorded as deferred charges; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount. On March 10, 2010 the County issued $5,320,000 in Limited Tax General Obligation Refunding Bonds, 2010 to provide funds to pay the cost of advance refunding and defeasing the County's outstanding Limited Tax Obligation Bonds, 2001.The interest rate ranges from 3.0% in 2010 to 4.0% in 2024, and will be redeemed with revenue from real estate excise taxes and general ad valorem taxes. In the unlikely event that such revenue is insufficient, the General Fund will provide funding for any remaining debt service payments related to this issue.

The remaining 2005 and 1997A bond issues are general obligation bonds secured by the full faith and credit of Island County.

General Obligation bonds currently outstanding are as follows:

	Purpose	Original Amount	Interest Rate	Amount of Installment
1997 Limited G.O. Bonds	Greenbank Farm Improvements and Courthouse Expansion	$ 9,990,000	Average Coupon rate of 4.98%	$ 94,545
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%	856,870
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%	245,400
			Total	**$1,196,815**

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
2011	$ 780,000	$ 416,815
2012	730,000	386,695
2013	770,000	357,995
2014	810,000	327,845
2015	855,000	296,610
2016-2019	3,015,000	844,130
2020-2024	3,530,000	435,800
Total	$ 10,490,000	$ 3,065,890

B. Refunded Debt

The County issued $5,320,000 of Limited Tax General Obligation Refunding Bonds, 2010 so the County can obtain the benefit of savings in total debt service requirements. The proceeds of the Bonds will be used to provide funds to establish an irrevocable escrow to: (i) pay interest on the Refunded Bonds when due on June 1, 2010, December 1, 2010, and June 1, 2011; (ii) provide for the payment and redemption on December 1, 2011 of the County's outstanding 2001 Bonds maturing in the years 2011 through 2024 (the "Refunded Bonds"); and (iii) pay the administrative costs of the refunding and the cost of the issuance of the Bonds. As a result the refunded bonds are considered to be defeased and the liability ($5,000,000 at December 31, 2010) has been removed from the Government Type activities column of the Statement of Net Assets. This advance refunding will reduce total debt service payments in 2010 and through 2024 by $348,751, resulting in an economic gain from a present value perspective of $276,402.

C. Revolving Fund and Other Loans

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

Project Completion Date	Original Amount	Interest Rate	Amount at 12/31/10
9/17/06	$279,738	0.5%	$ 62,590
7/1/09	$302,363	0.5%	$269,095
6/8/10	$192,787	1.3%	$192,787
12/31/12	$143,437	1.5%	$143,437
11/30/01	$685,543	1.5%	$410,258
		Total	$1,078,167

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

Year Ending 31-Dec	Principal	Interest
2011	$ 198.793	$ 18,969
2012	$ 146,589	$ 8,347
2013	$ 162,549	$ 9,054
2014	$ 181,006	$ 7,262
2015-2019	$ 309,536	$ 16,596
2020-2021	$ 79,694	$ 1,500
Total	$ 1,078,167	$ 61,728

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 amount to be paid for 2010 is $433,515 for governmental funds and $21,162 for business-type funds.

NOTE 11 – LEASES

A. Operating Leases

The County leases one office building and three copy machines under non-cancelable operating leases. The building lease may be adjusted once annually to keep in line with Consumer Price Inflation trends as reported in the Seattle “New All Urban” published by the Washington Local Government Personnel Institute of Labor Relations. Total costs for all such leases were $56,803 for the year ended December 31, 2010.

The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2011	$ 52,039
2012	$ 51,773
2013	$ 51,773
2014	$ 51,263
2015	$ 48,713
2016	$ 48,713
Total	$ 304,274

B. Capital Leases & Other Notes Payable

At this time Island County has one active capital lease. The last scheduled payment for the NexxPost Mail Machine located in Central Services was made in January 2010.

A new capital lease to upgrade equipment and secure service and rate charges for this same machine was entered into at the end of 2010 with payments scheduled to start in 2011.

Asset	Governmental Activities
Mail System - CS	$ 16,725
Less: Accumulated Depreciation	(16,725)
Mail System – CS Upgrade	9,917
Less: Accumulated Depreciation	-
Total	$ 9,917

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2010, the following changes occurred in long–term liabilities:

	Beginning Balance 01/01/10	Additions	Reductions	Ending Balance 12/31/10	Due within One Year
Governmental Activities:					
General obligation bonds	$11,040,000	$,320,000	$(5,870,000)	$10,490,000	$ 780,000
Amortization/Issuance Costs	20,852	223,701	(17,520)	227,033	17,520
Capital leases	374	9,917	(374)	9,917	3,159
Revolving State Fund	1,061,975	145,800	(129,608)	1,078,167	198,793
Compensated absences	3,453,568	1,791,407	(1,928,205)	3,316,770	433,515
Other Post Employment Benefits Payable	633,612	227,518	(82,507)	778,623	
Governmental activity long - term liabilities:	$16,210,381	$ 7,718,343	$(8,028,214)	$15,900,510	$1,432,987
Business-Type Activities:					
Compensated absences	$ 148,381	$ 107,131	$ (102,086)	$ 153,426	$ 21,162
Business-type activity long-term liabilities:	$ 148,381	$ 107,131	$ (102,086)	$ 153,426	$ 21,162

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 $24,138 of internal service funds compensated absences are included in the above amounts. Compensated absences for governmental activities are liquidated in the governmental fund from which the employee's salary is paid.

NOTE 13 - CONTINGENCIES & LITIGATION

Island County has recorded in its financial statements all material liabilities including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the County will have to make payment. All estimates for situations which are not yet resolved or known are assumed to be covered by Washington Counties Insurance Risk Pool or Island County's Insurance reserves. In the opinion of management, the County has adequate insurance and reserves to pay all known and pending litigation.

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

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

NOTE 14 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports $27.77 million of restricted net assets, which is restricted by enabling legislation.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund balances consist primarily of interfund vouchers accrued at December 31, 2010. These amounts will be cleared in 2011. Included in interfund balances at January 1, 2010 was a $1.3 million interest accrual recorded as an interfund liability in the General Fund and an interfund receivable in the special revenue funds. A prior period adjustment reversed this amount in 2010 as disclosed in Note 19.

Interfund transfers of $4.3 million which includes (1) budget operating transfers of $3.5 million (2) $0.2 million internal services funds; (3) reimbursement transfers of $0.2 million; (4) 0.1 million of capital improvement transfers and (5) $0.3 million of other operating transfers. A schedule of interfund balances and transfers between funds is on the following page.

NOTE 16 – RECEIVABLE AND PAYABLE BALANCES

A. Other Receivables, Net consist of:

	Governmental Activities	Business-Type Activities
Court fees and fines	$ 596,430	$
Accounts receivable, customers		553,687
Cable and telephone fees	484,810	
Interest on investments and property tax	39,962	
Miscellaneous	85,965	
Total	$ 1,207,167	$ 553,687

B. Accounts Payable consist of:

	Governmental Activities	Business-Type Activities
Invoices for daily operating expenses	$ 1,444,359	$ 343,947
Total	$ 1,444,359	$ 343,947

C. Other Current Liabilities consist of:

	Governmental Activities	Business-Type Activities
Payroll payable	$ 1,035,918	$ 40,557
Accrued interest on debt	39,140	
IBNR claims	551,000	
Total	$ 1,626,058	$ 40,557

Island County
Schedule of Interfund Balances
For the Year Ended December 31, 2010

Due To	Due From: Governmental Activities: General Fund	County Road	Conservation Futures	Other Governmental Funds	Internal Service Funds	Subtotal Governmental Activities	Business-Type Activities: Solid Waste	Other Business-Type	Total Business-Type	Fiduciary Funds	Total Due From
Governmental Activities											
General Fund		-	-	9,417	69,964	79,381			-	-	79,381
County Road Fund	-			42,254	68,831	111,085			-		111,085
Conservation Futures						-			-		-
Other Governmental Funds	18,448	38,340		306,663	25,069	388,520			-		388,520
Internal Service Funds		32,021			12,421	44,442			-		44,442
Subtotal	18,448	70,361	-	358,334	176,285	623,428	-	-	-	-	623,428
Fiduciary Funds											
Business Type Activities-Solid Waste	-	368	-	18,170	9,351	27,889			-		27,889
Business Type Activities-Other	-	-			318	318			-		318
Total Due To	18,448	70,729	-	376,504	185,954	651,635	-	-	-	-	651,635

Schedule of Interfund Transfers
For the Year Ended December 31, 2010

Transfer In	Transfer Out: Governmental Activities: General Fund	County Road	Conservation Futures	Other Governmental Fund	Internal Service Fund	Subtotal Governmental Activities	Business-Type Activities: Solid Waste	Other Business-Type	Total Business-Type	Fiduciary Funds	Total Transfer Out
Governmental Activities											
General Fund		1,349,725	4,228	340,689	140,497	1,835,139	231,900	1,100	233,000		2,068,139
County Road Fund				79,222		79,222					79,222
Conservation Futures											
Other Governmental Funds	1,258,412	339,017		250,176	41,000	1,888,605	84,662		84,662		1,973,267
Internal Service Funds	182,000					182,000					182,000
Subtotal	1,440,412	1,688,742	4,228	670,087	181,497	3,984,966	316,562	1,100	317,662		4,302,628
Fiduciary Funds											
Business Type Activities											
Solid Waste				9,161		9,161					9,161
Other Business Type Funds											
Total Business Type Activities	-	-	-	9,161	-	9,161	-	-	-	-	9,161
Total Transfer In	1,440,412	1,688,742	4,228	679,248	181,497	3,994,127	316,562	1,100	317,662	-	4,311,789

NOTE 17 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of twenty years as of January 1, 2007. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation (NOO) of $778,623 is included as a noncurrent liability on the Statement of Net Assets.

	Year Ending 12/31/2010
Determination of Annual Required Contribution:	
Normal Cost at year end	$ -
Amortization of UAAL*	258,004
Annual Required Contribution	$ 258,004
Determination of Net OPEB Obligation:	
Annual Required Contribution	$ 258,004
Interest on prior year Net OPEB Obligation	28,512
Adjustment to ARC	(58,998)
Annual OPEB Cost	227,518
Contribution made	(82,507)
Increase in Net OPEB Obligation	$145,011
Net OPEB Obligation-beginning of year	$633,612
Net OPEB Obligation-end of year	$778,623

*Unfunded Actuarial Accrued Liability (UAAL)

The County's OPEB costs, the percentage of OPEB cost contributed to the plan and the net OPEB obligation for 2010 and the preceding two years is as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/08	$315,001	29.1%	$223,498
12/31/09	$267,747	34.2%	$176,090
12/31/10	$227,518	36.3%	$145,011

Funded Status and Funding Progress
As of January 1, 2007, the plan was 0% funded. The most recent actuarial valuation date is June 30, 2007. The funded status of the plan as of December 31, 2010 was as follows:

Actuarial Accrued Liability (AAL)	$2,770,841
Amount Accrued as of 12/31/10	(778,623)
Un-accrued Actuarial Liability	$1,992,218

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

Actuarial Methods and Assumptions
We have used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 18 – CLOSURE AND POST-CLOSURE CARE COSTS

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

During 2010, there was no revision to the post closure cost estimates. The estimate for annual maintenance and monitoring costs remains at $142,821 per year.

As of December 31, 2010 the estimated future liability for closure and post-closure care costs including post-closure maintenance and monitoring equipment is $2,856,420. As required by federal, state, and local regulations, cash in this amount has been restricted and a liability recorded. Management has also designated a $1,000,000 cash reserve of retained earnings to respond to unanticipated landfill environmental hazards and capital expenditures.

The total current cost of $156,050 includes the amounts expended during the year. The future liability is an estimate and subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

NOTE 19 – OTHER DISCLOSURES

Prior Period Adjustments

A prior period adjustment is reported for the governmental funds statements. For the year 2009, the Washington State Auditor's office requested the county to record as a liability on the financial statements investment interest earned for the years 2005 through 2009, resulting in a prior year adjustment of $1,168,682 and current year adjustment of $144,680. Island County respectfully disagreed with the reporting of this liability and believed the county is in compliance with RCW 36.29.020, a statute of general applicability, which applies to the use of investment earnings/interest when the Board of County Commissioners has not taken action pertaining to investment of those funds. Under that statute, the investment earnings/interest on funds not required for immediate expenditure are to be deposited in the General Fund and allowed to be used for general county purposes. In 2009, the County recorded the adjustment as requested.

In late 2010, the Attorney General rendered an opinion on the issue, AGO 2010 No.10. The opinion supports the County's interpretation of the statute and allows interest in the General Fund. Therefore in 2010 there is a prior period adjustment reversing the 2009 prior period adjustment (except for $4,012 which must remain in the fund by statute) and current period earnings, which results in the following adjustment to the financial statements:

General Fund – A prior period adjustment of $1,309,350 to increase fund balance is reported at the fund level of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds. Due to the fact that the transfer in was reversed in 2009 and a liability credited, this prior period adjustment for the general fund reverses the 2009 entry by reversing the liability of $1,309,350.

Conservation Futures Fund - A prior period adjustment of $121,617 to decrease fund balance is reported at the fund level of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds. Due to the fact that the expenditure associated with the adjustment has been recognized and reversed in prior years, the amount due from other funds must be offset by a decrease of unreserved fund balance.

Other Governmental Funds - A prior period adjustment of $1,026,161 to decrease fund balance is reported at the fund level of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds. Due to the fact that the expenditure associated with the adjustment has been recognized and reversed in prior years, the amount due from other funds must be offset by a decrease of unreserved fund balance.

These adjustments have a net prior period adjustment of $161,572 in the Total Governmental Funds column of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds. This is offset by the prior period adjustment of $161,572 in the Governmental Activities Internal Service Funds as shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of Proprietary Funds. Due to the fact that the expenditure associated with the adjustment has been recognized and reversed in prior years, the amount due from other funds must be offset by a decrease of unreserved fund balance.

As the Internal Service Funds are combined with the Governmental Funds and interfund activity is eliminated in the Government-wide financial statements, there is no prior period adjustment associated with the adjustment on the Statement of Net Assets or Statement of Activities.

ISLAND COUNTY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2010

General Fund (001)	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Budgetary Fund Balance, January 1, 2010			
UNRESERVED FUND BALANCE AS PREVIOUSLY REPORTED	$ 436,000	$ 1,210,000	$ 5,239,450
PRIOR PERIOD ADJUSTMENT			1,309,350
UNRESERVED FUND BALANCE AS RESTATED	436,000	1,210,000	6,548,800
RESERVED FUND BALANCE			
Resources (Inflows):			
TAXES	13,377,975	13,377,975	13,343,577
LICENSES AND PERMITS	864,100	864,100	987,278
INTERGOVERNMENTAL REVENUES	2,250,520	2,270,520	2,871,909
CHARGES FOR GOODS AND SERVICES	1,566,906	1,716,906	1,776,948
FINES AND FORFEITS	596,550	596,550	601,940
MISCELLANEOUS REVENUES	625,000	625,000	82,607
OTHER FINANCING SOURCES	1,947,900	1,947,900	2,177,962
Total Resources (Inflows)	21,228,951	21,398,951	21,842,221
Amounts Available for Appropriation	21,664,951	22,608,951	28,391,021
Charges to Appropriations(Outflows):			
GENERAL GOVERNMENT SERVICES	9,846,927	9,846,927	9,539,361
SECURITY OF PERSONS AND PROPERTY	8,264,310	8,438,310	8,275,960
UTILITIES AND ENVIRONMENT	209,500	209,500	215,103
TRANSPORTATION			-
ECONOMIC ENVIRONMENT	1,440,986	1,610,986	1,549,368
MENTAL AND PHYSICAL HEALTH			-
CULTURE AND RECREATION	208,188	208,188	178,777
DEBT SERVICE	10,000	10,000	3,589
OTHER EXPENDITURES	423,335	1,023,335	515,918
OTHER FINANCING USES	1,261,705	1,261,705	1,440,412
Total Charges to Appropriations(Outflows)	21,664,951	22,608,951	21,718,488
Budgetary Fund Balance, December 31, 2010			$ 6,672,533

County Roads (101)	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis)
Budgetary Fund Balance, January 1, 2010			
UNRESERVED FUND BALANCE	$ -	$ -	$ 8,209,759
RESERVED FUND BALANCE			
Resources (Inflows):			
TAXES	7,762,200	7,762,200	7,764,234
LICENSES AND PERMITS	134,400	134,400	142,211
INTERGOVERNMENTAL REVENUES	12,849,278	12,849,278	7,833,470
CHARGES FOR GOODS AND SERVICES	75,029	75,029	21,860
FINES AND FORFEITS	300	300	1,112
MISCELLANEOUS REVENUES	11,750	434,150	53,617
OTHER FINANCING SOURCES			84,287
Total Resources (Inflows)	20,832,957	21,255,357	15,900,791
Amounts Available for Appropriation	20,832,957	21,255,357	24,110,550
Charges to Appropriations(Outflows):			
GENERAL GOVERNMENT SERVICES			
UTILITIES AND ENVIRONMENT			
TRANSPORTATION	8,924,665	8,924,665	8,830,826
DEBT SERVICE	177,713	177,713	178,016
OTHER EXPENDITURES	9,389,362	9,389,362	3,087,614
OTHER FINANCING USES	2,341,217	2,763,617	1,688,742
Total Charges to Appropriations(Outflows)	20,832,957	21,255,357	13,785,198
Budgetary Fund Balance, December 31, 2010			$ 10,325,352

See accompanying notes to required supplementary information schedules.

ISLAND COUNTY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2010

Conservation Futures Fund (132)	**Budgeted Amounts**		**Actual Amounts**
	Original	**Final**	**(Budgetary Basis)**
Budgetary Fund Balance, January 1, 2010			
UNRESERVED FUND BALANCE AS PREVIOUSLY REPORTED	$ -	$ -	$ 558,003
PRIOR PERIOD ADJUSTMENT			(121,617)
UNRESERVED FUND BALANCE AS RESTATED	-	-	436,386
RESERVED FUND BALANCE			
Resources (Inflows):			
TAXES	678,000	678,000	650,490
INTERGOVERNMENTAL REVENUES			295,218
MISCELLANEOUS REVENUES		42,000	36,082
OTHER FINANCING SOURCES			
Total Resources (Inflows)	678,000	720,000	981,790
Amounts Available for Appropriation	678,000	720,000	1,418,176
Charges to Appropriations(Outflows):			
CULTURE & RECREATION	7,088	7,088	21,731
DEBT SERVICE	259,899	259,899	255,055
OTHER EXPENDITURES	411,013	411,013	75,421
OTHER FINANCING USES		42,000	4,228
Total Charges to Appropriations(Outflows)	678,000	720,000	356,435
Budgetary Fund Balance, December 31, 2010			$ 1,061,741

See notes to required supplementary information.

ISLAND COUNTY
OTHER POST EMPLOYMENT BENEFITS
LEOFF 1 RETIREMENT BENEFITS
For the Year Ended December 31, 2010

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

See accompanying notes to required supplementary information schedules.

NOTE 1 – Excesses of Expenditures over Appropriations

The expenditures on a budgetary basis of all the major governmental funds presented in the Budgetary Comparison Schedule are less than the resources in that fund.

NOTE 2 – Budgetary Basis

In 2010, the County's budgetary basis is the modified accrual cash basis which includes any expenditures budgeted in 2010 that are paid in 2010 and in January 2011. Following are the adjustments for the budgetary basis of the major funds:

	General Fund	County Road Fund	Conservation Futures
Fund Balance Budgetary Basis	6,672,533	10,325,352	1,061,741
2010 Amounts paid after 01/31/2011	147,474	42,060	-
Fund Balance per Financial Statements	6,525,059	10,283,292	1,061,741

NOTE 3 – Beginning Fund Balance

The beginning fund balance of the General Fund and the Conservation Futures Fund have been restated per the prior period adjustment of restricted interest as disclosed in the Notes to the Financial Statements, Note 19.

NOTE 4 – Other Post Employment Benefits (OPEB)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2010

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-Note Ref.
U.S. Department of Agriculture / pass-through from WA State Superintendent of Public Instruction	School Breakfast Program	10.553	MOU	$ 4,566		$ 4,566	
	National School Lunch Program	10.555	MOU	$ 8,274		$ 8,274	
U.S. Department of Agriculture / pass-through from WA State Dept. of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C14949	$ 221,782		$ 221,782	
U.S. Department of Agriculture / pass-through from WA State Dept. of Health	WIC Farmers' Market Nutrition Program (FMNP)	10.572	C14949	421		421	
Department of Commerce NOAA / pass-through from WA State Dept. of Ecology	Coastal Zone Management Administration Awards	11.419	G1000001	130,365		130,365	
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	09-1500N	34,428		34,428	
U.S. Department of Commerce pass-through from WA State Department of Information Services	State Broadband Data and Development Grant Program	11.558	MOU	34,354		34,354	
Department of the Interior Fish and Wildlife Service pass-through from WA State Dept of Ecology	Fish and Wildlife Management Assistance	15.608	2008-0053-071	33,594		33,594	
U.S. Department of Justice / pass-through from the WA State Dept of Social and Health Services	Juvenile Accountability Block Grants	16.523	0663-99171	6,347		6,347	
U.S. Department of Justice / pass-through from the Office of Crime Victims Advocacy	Violence Against Women Formula Grants	16.588	F09-31103-056	3,079		3,079	
U.S. Department of Justice Drug Enforcement Agency pass-through from Washington State Patrol	Law Enforcement Assistance Narcotics and Dangerous Drugs	16.001	C100882FED	1,722		1,722	
U.S. Departmetn of Justice Bureau of Justice Assistance	Bullet Proof Vest Partnership Program	16.607	ID04025006		5,705	5,705	
U.S. Department of Justice Office of Community Oriented Policing Services	Public Safety Partnership and Community Policing Grants	16.710	2009CKWX0187		5,514		
U.S. Department of Justice pass-through from Washington Association of Sheriffs and Police Chiefs			WSMI0910	17,914			
			Subtotal	17,914	5,514	23,428	

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, 2010

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-Note Ref.**
U.S. Department of Justice / pass-through from Washington State Dept of Community Trade and Economic Development	**ARRA**- Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To States and Territories	16.803	F09-34721-039	82,138		82,138	3
U.S. Deparment of Justice	**ARRA**- Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government	16.804	2009-SB-B9-0532		14,181	14,181	3
U.S. Department of Transportation / pass-through from WA State Dept. of Transportation	Highway Planning and Construction	20.205					
			LA-6590	56,367			
			LA-6754	172,199			
			LA-6341	93			
			LA-6398	4,590			
			LA-7001	17,286			
			LA-7003	15,619			
			LA-7000	7,594			
			LA-7002	5,215			
			LA-6601	13,123			
			LA-6115	53,100			
	ARRA-Highway Planning and Construction	20.205	LA-6835	194,767			3
			LA-6930	28,603			
			Subtotal	568,556		568,556	
U.S. Department of Transportation / pass-through from Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	MOU	5,086			
U.S. Department of Transportation / pass-through from Washington Traffic Safety Commission			MOU	5,187			
			Subtotal	10,273		10,273	
U.S. Department of Transportation / pass-through from Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	MOU	4,778		4,778	
Environmental Protection Agency / pass-through from Washington State University	National Estuary Program	66.456	G002452	5,923		5,923	
Environmental Protection Agency / pass-through from Washington State Dept. of Ecology	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C14949	11,250		11,250	
Environmental Protection Agency / pass-through from Washington State University	Beach Monitoring and Notification Program Implementation Grants	66.472	C14949	8,500		8,500	
U.S. Election Assistance Commission pass-through from Washington Secretary of State	Help America Vote Act Requirements Payments	90.401	G-2840	88,787		88,787	
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-09441	5,000		5,000	

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, 2010

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-Note Ref.**
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Social and Health Services	Public Health Emergency Preparedness	93.069	C14949				
	PHEPR LHJ Funding			44,344			
	PHER H1N1 Pandemic Influenza Focus 1			21,312			
	PHER H1N1 Pandemic Influenza Focus 2			289			
	PHER H1N1 Pandemic Influenza Focus 3			85,149			
			Subtotal	151,094		151,094	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	Immunization Grants	93.268	C14949	8,022			2
	FA 317 Immunizations			2,279			
	AFIX Immunizations			16,925			
			Subtotal	27,226		27,226	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Social and Health Services	Centers for Disease Control and Prevention Investigations and Technical Assistance: Tobacco Prevention	93.283	C14949	9,648			
U.S. Department of Health and Human Services / pass-through from National Association of County and City Health Officials	Centers for Disease Control and Prevention Investigations and Technical Assistance: ACHIEVE Demonstration Site Program		2009-110506	15,379			
			Subtotal	25,027		25,027	
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	57,047			
			2110-85205	3,597			
			2110-85205	31,560			
			Subtotal	92,204		92,204	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	Child Care and Development Block Grant	93.575	C14949	11,557		11,557	
Department of Health and Human Services pass-through from Washington Secretary of State	Voting Access for Individuals with Disabilities Grants to States	93.617	G10-326 / EAID G-4271	6,498		6,498	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	**ARRA** - Immunization	93.712	C14949	5,434		5,434	2,3
	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	C14949	16,886		16,886	3
	Medical Assistance Program	93.778	0963-53329	44,746		44,746	

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, 2010

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-Note Ref.**
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	National Bioterrorism Hospital Preparedness Program	93.889	C14949	3,223		3,223	
U.S. Department of Health and Human Services Substance Abuse and Mental Health Services / pass-through from WA State Dept of Social and Health Services	Block Grants for Prevention and Treatment of Substance Abuse - Federal Grant in Aid	93.959	0963-68036	86,990			
	Prevention & Treatment of Substance Abuse - Children's Transition Initiative			6,933			
	Prevention and Treatment of Substance Abuse - Prevention			37,853			
	Prevention and Treatment of Substance Abuse - Community Prevention Training			1,788			
			Subtotal	133,564		133,564	
Department of Health and Human Services pass-through from Washington State Social and Health Services	Preventive Health and Health Services Block Grant	93.991	C14949 0963-68651 1063-95382	56,429		56,429	
	Maternal and Child Health Services Block Grant to the States	93.994	C14949	58,750		58,750	
Department of Homeland Security / pass-through from WA State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	2009-37	16,822		16,822	
Department of Homeland Security / pass-through from WA State Military Department	Emergency Management Performance Grants (EMPG)	97.042	E10-303 / E10-318	10,730		10,730	
	Homeland Security Grant Program	97.067	E09-181 / E10-206	129,649			
			K691-CCP	809			
			Subtotal	130,458		130,458	
Total Federal Awards Expended				$ 2,072,699	$ 25,400	$ 2,098,099	

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2010

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 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 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for the program were funded by ARRA.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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