Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Island County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008297

Issue Date
September 17, 2012

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 17, 2012

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

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388
FAX (360) 753-0646 • http://www.sao.wa.gov

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January 1, 2011 through December 31, 2011

Federal Summary

Island County
January 1, 2011 through December 31, 2011

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
10.557	Special Supplemental Nutrition Program for WIC
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction
20.205	ARRA - Highway Planning and Construction Cluster – Highway Planning and Construction

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, 2011 through December 31, 2011

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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 10, 2012. During the year ended December 31, 2011, the County implemented Governmental Accounting Standards Board Statement No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*.

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

August 10, 2012

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, 2011 through December 31, 2011

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, 2011. 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, 2011.

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

August 10, 2012

Independent Auditor's Report on Financial Statements

Island County
January 1, 2011 through December 31, 2011

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, 2011, 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, 2011, 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.

As described in Note 1, during the year ended December 31, 2011, the County implemented Governmental Accounting Standards Board Statement No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16, budgetary comparison information on pages 63 through 64 and information on postemployment benefits other than pensions on pages 65 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Liabilities is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 10, 2012

Financial Section

Island County
January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

Discussion of Basic Financial Statements

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

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

Government-wide Financial Statements
The government-wide statements present an overall picture of the County's financial position and the results of operations on two statements, the Statement of Net 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 nonspendable, restricted, or committed, and are not currently available for appropriation. Long-term receivables associated with loans to other funds may be financial assets, but not immediately available. Pre-paid expenses are also financial assets that are not immediately available, even though they must be included in the report. Additionally, restrictions involving third parties may make financial resources unavailable for appropriation. Purchase orders or contracts outstanding near the end of the fiscal period render those amounts unavailable for new spending. Fund balance may be divided into nonspendable, restricted, committed, assigned, or unassigned depending on external and internal constraints placed on the use of these resources. The classifications are defined in Note 1E.

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

The County maintains individual governmental funds to account for the functions of the County. Major funds are presented separately in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The major funds are the General Fund, the Road Fund, and the Rural County Sales Tax 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, 2011 assets exceeded liabilities by $143 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 (20%) represents resources that are subject to restrictions on how they may be used. The remaining balance of $10.6 million may be used to meet the County's ongoing obligations to citizens and creditors. In 2011, the County's total revenues exceeded expenses resulting in an increase in net assets of $8 million. The County's net assets from governmental activities increased by $7.7 million during the current year, and the net assets from business-type activities increased $278 thousand.

On the following page is the Summary of Net Assets and the Statement of Activities and Changes in Net Assets prepared on a comparative basis for 2010 and 2011.

Summary Statement of Net Assets (In Thousands)

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	$ 44,355	$ 42,335	$ 6,133	$ 5,612	$ 50,488	$ 47,947
Capital assets	108,657	103,272	5,114	5,397	113,771	108,669
Total Assets	153,012	145,607	11,247	11,009	164,259	156,616
Liabilities						
Other liabilities	3,484	3,565	363	420	3,847	3,985
Non-Current liabilities	14,702	15,467	3,006	2,989	17,708	18,456
Total Liabilities	18,186	19,032	3,369	3,409	21,555	22,441
Net Assets						
Invested in Capital assets net of related debt	99,110	92,986	5,114	5,398	104,224	98,384
Restricted	27,872	27,766	-	-	27,872	27,766
Unrestricted	7,844	5,823	2,764	2,203	10,608	8,026
Total Net Assets	**$ 134,826**	**$ 126,575**	**$ 7,878**	**$ 7,601**	**$ 142,704**	**$ 134,176**

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

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program Revenues						
Charges for services	$ 5,995	$ 5,993	$ 5,879	$ 6,178	$11,874	$12,171
Operating grants and contributions	7,299	6,415	155	115	7,454	6,530
Capital grants & contributions	2,551	1,376			2,551	1,376
Total Program Revenues	15,845	13,784	6,034	6,293	21,879	20,077
General Revenues						
Property taxes	16,263	16,058			16,263	16,058
Sales/Use taxes	7,108	7,122			7,108	7,122
Other taxes	7,950	8,199			7,950	8,199
Penalties and interest	1,519	981	4	7	1,523	988
Other	1,318	1,222			1,318	1,222
Total General Revenues	34,158	33,582	4	7	34,162	33,589
Total Revenues	50,003	47,366	6,038	6,300	56,041	53,666
Expenses						
General government	7,481	7,852			7,481	7,852
Judicial	3,023	3,092			3,023	3,092
Public safety	9,897	10,704			9,897	10,704
Physical environment	969	880	5,389	5,341	6,358	6,221
Transportation	11,272	11,192			11,272	11,192
Health and human services	4,272	4,513			4,272	4,513
Economic environment	4,043	3,233			4,043	3,233
Culture and recreation	1,215	1,240	45	47	1,260	1,287
Interest on long-term debt	473	447			473	447
Total Expenses	42,645	43,153	5,434	5,388	48,079	48,541
Change in Net Assets before Transfers	7,358	4,213	604	912	7,962	5,125
Transfers In (Out)	326	309	(326)	(309)		
Change in Net Assets	7,684	4,522	278	603	7,962	5,125
Net Assets, January 1	126,575	122,053	7,601	6,998	134,176	129,051
Prior Period Adjustment	566				566	
Net Assets, December 31	**$134,825**	**$126,575**	**$ 7,879**	**$ 7,601**	**$ 142,704**	**$ 134,176**

The County Road Fund increased fund balance by $332 thousand compared to a $2.1 million increase in 2010. The year's grant revenue was $1.7 million more than the prior year which was offset by the expenditure increase on road projects $1.7 million more that the previous year an indication that more projects were funded through grants. The increase in expenditures also is an indication of more projects. The primary increase in fund balance was due to an increase in taxes of $190 thousand and a decrease in the debt service principal of $75 thousand.

The Rural County Sales Tax Fund decreased fund balance $1.1 million. The decrease was due to increased expenditures for awards to other governmental entities for economic development projects. The fund balance in other governmental funds increased by $475 thousand which is offset by a 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.

Governmental Activities

Net assets of governmental activities increased a total of $8.3 million, $7.7 million from activities and $566 thousand due to a prior period adjustment as explained in Note 19. The amount invested in capital assets increased $6.1 million and the amount of unrestricted net assets increased by over $2 million. The value of restricted net assets largely remained unchanged in 2011.

The increase in unrestricted net assets of $2 million was primarily due to an increase of $1.6 million in the General Fund. Revenue remained fairly constant and expenditures decreased $.3 million in general government and $.9 million in Public Safety due primarily to Sheriff Department staffing cuts, the other $.2 million increase was in managerial funds which are included in the General Fund under GASB 54, and operating transfers to other funds decreased to $.2 million.

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 $15.8 million and another $34.2 million was provided from taxes and other revenues not specific to a particular program. General revenues increased by $.6 million. Penalties and interest for property taxes increased $.4 million, investment interest increased $.1 million, and property taxes accounted for the other $.1 million increase. In 2010 400 properties were at risk of foreclosure and in 2011 700 properties were at risk. Of these properties approximately 680 paid their taxes prior to foreclosure proceedings resulting in a 75% increase in properties which paid penalties and interest in 2011.

In 2011 total governmental expenditures were reduced $.5 million. The General Government, Public Safety, and Public Health Pooling had expenditure reductions mainly in staffing. These reductions total $1.4 million which was offset by an increase of $.8 million in the Rural County Sales Tax fund for expenditures on the two projects being paid from the fund.

Business-type Activities

The business-type activities increase in net assets of $.2 million was due to revenue exceeding expenditures. The increase in net assets was $.3 million less than the increase in 2010 as both revenues and expenditures remained at the same level as they were in 2010 with a small decrease in revenues and a small increase in expenditures.

Fund Analysis

The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Unassigned fund balance may serve as a useful measure of net resources available for spending at the end of the year. As of the end of the year 2011, governmental funds reported combined ending fund balances of $34.1 million, an increase of $ 1.1 million in comparison with 2010. GASB 54 reclassified fund balance into new categories as explained in Note 19. Following is an explanation of changes:

•Nonspendable fund balance represents an interfund loan with no change for the year as no payments were made.

•Restricted fund balance decreased $3.3 million. The road fund decreased $2.3 million due to increased expenditures for a major road project during 2011. The remainder of the decrease was in the Rural County Sales Tax Fund whose awards for two projects exceeded revenues and therefore used beginning fund balance to fund the projects.

•Committed Fund Balance increased $2.6 million. The increase is all in the road fund which had committed revenue which was not spent on the road projects during the year.

•Assigned Fund Balance increased $665 thousand for the year. The Road Fund, Extension Services Fund, General Fund, and Juvenile Detention Center Fund each increased between $.1 million and $.2 million as assigned revenues were not expended during the year.

•Unassigned Fund Balance increased $1.2 million in the General Fund primarily due to decreased expenditures and staff cuts in General Government and the Sheriff's Office.

The General Fund, County Road Fund, and Rural Sales Tax Fund are the County's major governmental funds. The General Fund is the chief operating fund of the County. At the end of the year, unassigned fund balance was $5.2 million, which is an increase of $1.2 million for the year. The increase is due to reduction in expenditures in general service and the Sheriff's office due to staffing reductions.

The County Road Fund increased fund balance by $332 thousand compared to a $2.1 million increase in 2010. The year's grant revenue was $1.7 million more than the prior year which was offset by the expenditure increase on road projects $1.7 million more that the previous year an indication that more projects were funded through grants. The increase in expenditures also is an indication of more projects. The primary increase in fund balance was due to an increase in taxes of $190 thousand and a decrease in the debt service principal of $75 thousand.

The Rural County Sales Tax Fund decreased fund balance $1.1 million. The decrease was due to increased expenditures for awards to other governmental entities for economic development projects. The fund balance in other governmental funds increased by $475 thousand which is offset by a 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 a $58,000 increase in the original budget and the final amended budget of the General Fund. The County Road Fund had an increase of $60 thousand. The Rural County Sales Tax Fund budget had an increase of $1.0 million during the year to fund an improvement project in Oak Harbor.

The comparison of the final amended budget to actual reflects a variance of budgetary fund balances in the major funds. The budget only reflects the fund balances being used in the budget, whereas the actual column reflects the actual beginning fund balance. In the General Fund, the variance for total resources is an increase of $432 thousand and for outflows the variance is $1.2 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 $1.2 million decrease in expenditures is due to decreases in general government services and public safety $.4 million, an operating transfer to the Juvenile Detention Center $.4 million was not required and $.4 million increase in fund balance. Expenditures overall were less than budget as positions were left vacant and operating supplies were less. The budget included a $.4 increase in fund balance to begin recovering amounts used in previous years. The County actually increased fund balance $1.5 million.

In the Road Fund total resources were under budget by $1.7 million and total expenditures were under budget by $2.0 million. Revenues were under budget primarily due to a decrease in intergovernmental grant revenues. Expenditures were under budget due to construction projects deferred until 2012.

The Rural County Sales Tax Fund revenue was under budget as the sales tax revenue was less than budget by $60 thousand. Expenditures were under budget $1.0 million as the Freeland sewer project budgeted for 2011 was $1.7 million and only $.7 million was expended in 2011.

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 $114 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 $5.4 million for the year mainly due to infrastructure construction projects in 2011 of $5.7 million, an increase in intangible assets of $.4 million, and a decrease in machinery and equipment of $.8 million.

At the end of the current year the County had total bonded debt outstanding of $9.7 million. The debt is backed by the full faith and credit of the government and represents general obligation bonds. Other long-term debt consists of state loan programs, compensated absences, liability for landfill closures and post closures, OPEB/pension related liabilities, and capital leases. Total long-term debt of the county is $17.7 million. State statutes limit debt to 2.5% of assessed taxable property value. The current debt limit for the county is $319 million, which is significantly in excess of the County's outstanding obligations. Additional information on long-term debt can be found in Note 10.

Other Significant Matters

Unassigned fund balance in the General Fund was $5.2 million at the end of 2011. None of the major funds have beginning fund balances appropriated in the 2012 budget.

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

The Global economic crisis remains a major factor in the overall fiscal well-being of WA State and Island County. Island County due to its remote, rural setting does not enjoy the I-5 corridor benefit for high volume retail sales and commercial opportunities. Our county continues to be particularly hit hard due to declines in interest rates on investments, reductions in local sales tax, high unemployment, and increases in fuel prices. The local real estate and housing market, both in sales of existing homes and new construction starts remain at a 25 year low, affecting jobs, sales tax and real estate excise tax. Interest rates on real estate loans are at an all time low, making this a good time for those able to qualify to consider buying a home or land. Jobs in construction, local government, and private sector continue to trend at rates far lower than pre-2007; the unemployment rate in Island County hovered around 8.5% in 2011.

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 government has been dramatically impacted by the economic downturn. Although NASWI remained a constant source of job retention with some continued job growth due to new and existing contracts-there were reductions in staffing of some squadrons and local government agencies did not fare well. Early 2011 revenue declined at a slower rate; sales tax revenue declined at a moderate rate; real property value declines were less than experienced between 2008-2010.

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

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. The economic decline reached Island County later than the East Coast and Midwest, thus the local economy is rebounding at a slower rate as well. Our local economy appeared to stabilize somewhat in 2011. Concern exists regarding higher gasoline prices in late 2011, and the potential for negative impact to local gas tax revenue. Gasoline prices are expected to remain above normal into 2012.

Island County continues to be a desirable place to live for retirees seeking a more relaxed lifestyle, affordable property in a moderate climate with a low crime rate and some of the lowest property taxes in WA State. Island County in comprised entirely of island, with two major islands that are well populated and several smaller ones that are uninhabited. The county has well maintained roads with both 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 2011. This trend is expected to continue into 2012. Revenue from new custom construction remains dramatically lower than pre-2007 timeframe. A nominal 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 2088 through 2011. With inventory growth continuing to outpace sales, the income to be derived from this revenue source is expected to trend downward. Property valuations for 2011 reflect continuing declines, as evidenced by the 2012 property tax evaluation statements.

ISLAND COUNTY, WASHINGTON

STATEMENT OF NET ASSETS

AS OF DECEMBER 31, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CASH AND CASH EQUIVALENTS	$ 4,674,961	$ 982,676	$ 5,657,637
TAXES RECEIVABLE	856,652		856,652
OTHER RECEIVABLES, NET	1,300,020	487,092	1,787,112
INTERNAL BALANCES	(89,979)	89,979	
DUE FROM OTHER GOVERNMENTS	5,656,265	38,629	5,694,894
INVENTORIES	462,436		462,436
PREPAID ITEMS	402,826		402,826
DEFERRED CHARGES	636,995		636,995
NOTE RECEIVABLE - CURRENT PORTION	190,741		190,741
RESTRICTED ASSETS - CASH SURPLUS INVESTED		2,856,420	2,856,420
INVESTMENTS OF SURPLUS CASH AT FAIR VALUE	29,517,737	1,678,452	31,196,189
NOTE RECEIVABLE - NONCURRENT PORTION	746,474		746,474
CAPITAL ASSETS - Net of Accumulated Depreciation			
LAND	15,408,599	1,067,537	16,476,136
BUILDINGS AND OTHER IMPROVEMENTS	24,127,901	3,483,853	27,611,754
MACHINERY AND EQUIPMENT	5,108,317	518,597	5,626,914
INFRASTRUCTURE	56,250,834		56,250,834
INTANGIBLES	5,986,980	44,322	6,031,302
CONSTRUCTION IN PROGRESS	1,774,008		1,774,008
TOTAL CAPITAL ASSETS	108,656,639	5,114,309	113,770,948
TOTAL ASSETS	153,011,767	11,247,557	164,259,324
LIABILITIES			
ACCOUNTS PAYABLE	1,764,223	275,687	2,039,910
OTHER CURRENT LIABILITIES	1,252,180	60,602	1,312,782
DUE TO OTHER GOVERNMENTS	63,138	5,325	68,463
ACCRUED LIABILITIES - CURRENT PORTION	404,708	19,680	424,388
NON-CURRENT LIABILITIES			
PAYABLE FROM RESTRICTED ASSETS		2,856,420	2,856,420
ACCRUED LIABILITIES	3,735,504	151,181	3,886,685
DUE WITHIN ONE YEAR	974,920		974,920
BOND PREMIUM	209,512		209,512
DUE IN MORE THAN ONE YEAR	9,782,088		9,782,088
TOTAL LIABILITIES	18,186,273	3,368,895	21,555,168
NET ASSETS			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	99,110,050	5,114,309	104,224,359
RESTRICTED FOR:			
GENERAL GOVERNMENT	743,809		743,809
PUBLIC SAFETY	299,034		299,034
CULTURE AND RECREATION	1,453,293		1,453,293
ECONOMIC ENVIRONMENT	3,659,785		3,659,785
MENTAL AND PHYSICAL HEALTH	2,293,648		2,293,648
ROAD AND STREETS	13,453,942		13,453,942
CAPITAL PROJECTS	5,790,267		5,790,267
OTHER PURPOSES	11,588		11,588
PHYSICAL ENVIRONMENT	166,124		166,124
UNRESTRICTED	7,843,954	2,764,353	10,608,307
TOTAL NET ASSETS	$ 134,825,494	$ 7,878,662	$ 142,704,156

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, 2011

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	PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES							
GENERAL GOVERNMENT	$ 7,481,445	$ 1,138,308	$ 1,209,518	$ 44,316	$ (5,089,303)	$	$ (5,089,303)
JUDICIAL	3,023,052	937,627	585,064		(1,500,361)		(1,500,361)
PUBLIC SAFETY	9,896,658	166,272	683,385		(9,047,001)		(9,047,001)
PHYSICAL ENVIRONMENT	968,840	68,806	694,099		(205,935)		(205,935)
TRANSPORTATION	11,272,087	700,843	1,181,943	2,161,937	(7,227,364)		(7,227,364)
HEALTH AND HUMAN SERVICES	4,272,692	617,365	2,452,396		(1,202,931)		(1,202,931)
ECONOMIC ENVIRONMENT	4,043,162	1,905,350	350,034		(1,787,778)		(1,787,778)
CULTURE & RECREATION	1,214,836	460,865	142,552	345,271	(266,148)		(266,148)
INTEREST ON LONG-TERM DEBT	472,552				(472,552)		(472,552)
TOTAL GOVERNMENTAL ACTIVITIES	42,645,324	5,995,436	7,298,991	2,551,524	(26,799,373)		(26,799,373)
BUSINESS-TYPE ACTIVITIES							
SOLID WASTE	5,388,700	5,858,615	154,709			624,624	624,624
PARK FACILITY MANAGEMENT	45,318	20,538				(24,780)	(24,780)
TOTAL BUSINESS-TYPE ACTIVITIES	5,434,018	5,879,153	154,709			599,844	599,844
TOTAL PRIMARY GOVERNMENT	48,079,342	11,874,589	7,453,700	2,551,524	(26,799,373)	599,844	(26,199,529)
General Revenues							
Taxes							
Property Taxes levied for General purpose					7,318,796		7,318,796
Property Taxes levied for Roads					7,960,742		7,960,742
Property Taxes levied for Other Specific Purpose					983,577		983,577
Sales and Use Tax					7,107,976		7,107,976
MVFT					6,587,576		6,587,576
Excise Taxes					1,362,190		1,362,190
Miscellaneous							
Penalties and Interest					1,519,520	4,183	1,523,703
Cable,E-911					1,298,604		1,298,604
Gain (Loss) on sale of Capital Assets					18,996		18,996
Transfers					326,000	(326,000)	
Total General Revenues and Transfers					34,483,977	(321,817)	34,162,160
Change in Net Assets					7,684,604	278,027	7,962,631
Net Assets - Beginning as Previously Reported					126,574,700	7,600,635	134,175,335
Prior Period Adjustment					566,190		566,190
Net Assets - Beginning as Restated					127,140,890	7,600,635	134,741,525
Net Assets Ending					$ 134,825,494	$ 7,878,662	$ 142,704,156

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

ISLAND COUNTY, WASHINGTON

BALANCE SHEET

GOVERNMENTAL FUNDS

AS OF DECEMBER 31, 2011

	GENERAL FUND	COUNTY ROAD FUND	RURAL COUNTY SALES TAX FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
CASH AND CASH EQUIVALENTS	$ 1,197,251	$ 1,367,928	$ 321,387	$ 1,654,527	$ 4,541,093
TAXES RECEIVABLE	378,396	425,587		52,669	856,652
OTHER RECEIVABLES, NET	697,693	14		354,792	1,052,499
DUE FROM OTHER FUNDS	9,174	109,547		453,562	572,283
INTERFUND LOANS RECEIVABLE	180,000			1,216,000	1,396,000
DUE FROM OTHER GOVERNMENTS	1,414,684	2,128,413	682,019	1,976,948	6,202,064
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE	7,033,852	8,089,503	1,900,934	9,975,914	27,000,203
TOTAL ASSETS	$ 10,911,050	$ 12,120,992	$ 2,904,340	$ 15,684,412	$ 41,620,794
LIABILITIES AND FUND BALANCES					
LIABILITIES					
ACCOUNTS PAYABLE	$ 440,980	$ 345,491	$ 290,846	$ 541,225	$ 1,618,542
DUE TO OTHER FUNDS	341,787	28,121		204,186	574,094
INTERFUND LOANS PAYABLE	600,000			796,000	1,396,000
DUE TO OTHER GOVERNMENTS	2,180			60,958	63,138
ACCRUED LIABILITIES	578,331	185,834		223,848	988,013
DEFERRED REVENUE	497,018	946,289	566,190	853,637	2,863,134
TOTAL LIABILITIES	2,460,296	1,505,735	857,036	2,679,854	7,502,921
FUND BALANCES					
NONSPENDABLE	180,000				180,000
RESTRICTED	238,508		2,047,304	10,991,252	13,277,064
COMMITTED	68,683	10,472,642		482,679	11,024,004
ASSIGNED	2,744,767	142,615		1,707,957	4,595,339
UNASSIGNED	5,218,796			(177,330)	5,041,466
TOTAL FUND BALANCES	8,450,754	10,615,257	2,047,304	13,004,558	34,117,873
TOTAL LIABILITIES & FUND BALANCES	$ 10,911,050	$ 12,120,992	$ 2,904,340	$ 15,684,412	$ 41,620,794

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, 2011

Total fund balances as shown on the Governmental Funds Balance Sheet	$	34,117,873
Capital Assets used in governmental activities are not financial resources therefore are not reported in the funds		98,779,372
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		(10,885,541)
Other Assets are not available to pay current expenditures , such as property taxes and notes receivables and therefore are not reported in the funds.		4,089,398
Internal Service Funds are used by the County to charge the costs of certain activities, such as insurance, equipment, and motor pool to individual funds. The assets and liabilities of these funds are included in the governmental activities in the Statement of Net Assets.		11,679,915
Other Liabilities such as Compensated Absences that are not due and payable in the current period and are not reported in the funds.		(4,223,023)
Net Assets of Governmental Activities	$	134,825,494

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, 2011

	GENERAL FUND	COUNTY ROAD FUND	RURAL COUNTY SALES TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
TAXES	$ 13,746,053	$ 7,955,004	$ 665,812	$ 4,860,146	$ 27,227,015
LICENSES AND PERMITS	1,067,802	82,750		507,954	1,658,506
INTERGOVERNMENTAL REVENUE	2,569,730	9,509,560		3,767,048	15,846,338
CHARGES FOR SERVICES	1,972,378	57,251		1,474,984	3,504,613
FINES AND FORFEITS	550,036			3,956	553,992
INTEREST AND INVESTMENT EARNINGS	301,785	56,367	17,287	91,084	466,523
MISCELLANEOUS	215,330	7,049		152,026	374,405
TOTAL REVENUES	20,423,114	17,667,981	683,099	10,857,198	49,631,392
EXPENDITURES					
CURRENT					
GENERAL GOVERNMENT	9,619,243			554,465	10,173,708
PUBLIC SAFETY	7,367,696			1,902,858	9,270,554
UTILITIES AND ENVIRONMENT	583,498			884,839	1,468,337
TRANSPORTATION		8,076,683		303,067	8,379,750
ECONOMIC ENVIRONMENT	1,723,818		1,780,677	460,620	3,965,115
MENTAL & PHYSICAL HEALTH				4,317,913	4,317,913
CULTURE & RECREATION	447,024			615,648	1,062,672
DEBT SERVICE					
PRINCIPAL		90,000		897,262	987,262
INTEREST	4,224	4,848		424,972	434,044
CAPITAL OUTLAY	308,042	7,230,099		1,600,926	9,139,067
TOTAL EXPENDITURES	20,053,545	15,401,630	1,780,677	11,962,570	49,198,422
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	369,569	2,266,351	(1,097,578)	(1,105,372)	432,970
OTHER FINANCING SOURCES(USES)					
PROCEEDS OF LONG TERM DEBT				86,138	86,138
OTHER NONREVENUES				110,715	110,715
DISPOSITION OF CAPITAL ASSETS	9,065	21,948		498	31,511
TRANSFERS IN	2,254,190			1,963,015	4,217,205
TRANSFERS (OUT)	(1,216,556)	(1,956,334)	(19,987)	(580,317)	(3,773,194)
TOTAL OTHER SOURCES (USES)	1,046,699	(1,934,386)	(19,987)	1,580,049	672,375
NET CHANGE IN FUND BALANCES	1,416,268	331,965	(1,117,565)	474,677	1,105,345
FUND BALANCES, AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED	6,525,060	10,283,292	3,164,869	13,039,307	33,012,528
PRIOR PERIOD ADJUSTMENT	509,426			(509,426)	
FUND BALANCES, AT BEGINNING OF YEAR RESTATED	7,034,486	10,283,292	3,164,869	12,529,881	33,012,528
FUND BALANCES, AT END OF YEAR	$ 8,450,754	$ 10,615,257	$ 2,047,304	$ 13,004,558	$ 34,117,873

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, 2011

Net Change in Fund Balances for Governmental Funds	$	1,105,345
Governmental funds report capital outlay as expenditure. However in the Statement of Activities, the cost of the assets is allocated over the estimated useful lives as depreciation expense.		6,176,148
Proceeds of notes receivable provide current resources to governmental funds but decrease assets in the Statement of Net Assets.		44,182
Debt proceeds provide current financial resources to governmental funds but debt increases long-term liabilities in the Statement of Net Assets		(110,715)
The issuance of long-term debt provides current financial resources to governmental funds, while repayments of bond principal and other long-term note payments are expenditures in governmental funds. Neither transaction has any effect on net assets. Governmental funds report the effect of refundings, issuance costs, premiums, and similar items when debt is first issued , whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		990,419
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.		(800,271)
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.		279,496
Changes in Net Assets of Governmental Activities on the Statement of Activities	$	7,684,604

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, 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS				
CASH	$ 980,434	$ 2,242	$ 982,676	$ 383,868
DUE FROM OTHER FUNDS				7,595
OTHER RECEIVABLES, NET	487,092		487,092	49,612
DUE FROM OTHER GOVERNMENTS	38,629		38,629	56
INVENTORIES				462,436
PREPAID ITEMS				402,826
TOTAL CURRENT ASSETS	1,506,155	2,242	1,508,397	1,306,393
NONCURRENT ASSETS				
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE	1,665,191	13,261	1,678,452	2,267,534
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	2,823,033	660,820	3,483,853	3,145,850
MACHINERY AND EQUIPMENT	518,597		518,597	4,682,225
INTANGIBLE ASSETS	44,322		44,322	
TOTAL NON-CURRENT ASSETS	8,467,453	1,181,728	9,649,181	10,877,301
TOTAL ASSETS	9,973,608	1,183,970	11,157,578	12,183,694
LIABILITIES				
CURRENT LIABILITIES				
ACCOUNTS PAYABLE	335,154	1,135	336,289	175,005
DUE TO OTHER FUNDS	5,274	114	5,388	396
DUE TO OTHER GOVERNMENTS	5,325		5,325	
OTHER CURRENT LIABILITIES				202,000
TOTAL CURRENT LIABILITIES	345,753	1,249	347,002	377,401
NONCURRENT LIABILITIES				
PAYABLE FROM RESTRICTED ASSETS	2,856,420		2,856,420	
COMPENSATED ABSENCES	164,012	6,849	170,861	31,011
TOTAL NONCURRENT LIABILITIES	3,020,432	6,849	3,027,281	31,011
TOTAL LIABILITIES	3,366,185	8,098	3,374,283	408,412
NET ASSETS				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	3,945,842	1,168,467	5,114,309	8,609,767
UNRESTRICTED	2,661,581	7,405	2,668,986	3,165,515
TOTAL NET ASSETS	$ 6,607,423	$ 1,175,872	7,783,295	$ 11,775,282
Adjustments to reflect consolidation of internal service fund activities related to enterprise funds			95,367	
Net Assets of business-type activities			$ 7,878,662	

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, 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenue				
Charges for services	$ 5,856,715	$	$ 5,856,715	$ 861,578
Equipment and space rents		20,515	20,515	1,658,761
Sales of merchandise				916,257
Miscellaneous revenue	1,901		1,901	
Total operating revenues	5,858,616	20,515	5,879,131	3,436,596
Operating Expenses				
Wages and benefits	1,427,583	18,006	1,445,589	633,192
Maintenance and operation	3,508,373	10,486	3,518,859	2,342,641
Landfill post closure costs	132,960		132,960	
Depreciation and amortization	347,334	16,826	364,160	1,123,862
Total operating expenses	5,416,250	45,318	5,461,568	4,099,695
Net operating income(loss)	442,366	(24,803)	417,563	(663,099)
Non-Operating Revenue (Expense)				
Interest Income	4,183		4,183	15,711
Interest expense				
Operating Grants	154,709	23	154,732	
Disposition of capital assets				(7,322)
Total non-operating income	158,892	23	158,915	8,389
Net income before transfers	601,258	(24,780)	576,478	(654,710)
Transfers in				37,500
Transfers out	(324,900)	(1,100)	(326,000)	(155,511)
Change in Net Assets	276,358	(25,880)	250,478	(772,721)
Total Net Assets - Beginning	6,331,065	1,201,752		12,548,003
Total Net Assets - Ending	$ 6,607,423	$ 1,175,872		$ 11,775,282
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			27,550	
Change in net assets of business-type activities			$ 278,028	

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, 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities				
Receipts from Operations	$ 5,923,308	$ 20,515	$ 5,943,823	$ 3,452,692
Payments for Wages and Benefits	(1,416,997)	(11,109)	(1,428,106)	(617,707)
Payments to Suppliers for Goods and Services	(3,274,356)	(11,056)	(3,285,412)	(2,635,303)
Payments for Landfill Closure Costs	(132,960)		(132,960)	
Internal Activity - Payments to Other Funds	(309,984)	(1,834)	(311,818)	
Net Cash Provided (used) by Operating Activities	789,011	(3,484)	785,527	199,682
Cash Flows from Non-Capital Financing Activities:				
Operating Grants	150,657	23	150,680	
Transfers	(324,900)	(1,305)	(326,205)	16,301
Net Cash Provided (Used) by Non-Capital Financing Activities	(174,243)	(1,282)	(175,525)	16,301
Cash Flows from Capital and Related Financing Activities				
Purchases of Capital Assets	(81,063)		(81,063)	(341,427)
Cash received from Sale of Capital Assets				1,581
Net Cash Used for Capital and Related Financing Activities	(81,063)		(81,063)	(339,846)
Cash Flows from Investing Activities				
Interest on Investments	4,183		4,183	15,711
Net Cash Provided by Investing Activities	4,183		4,183	15,711
Net Increase (Decrease) in Cash and Cash Equivalents	537,888	(4,766)	533,122	(108,152)
Cash and Cash Equivalents at Beginning of Year	2,107,737	20,269	2,128,006	2,759,554
Cash and Cash Equivalents at End of Year	2,645,625	15,503	2,661,128	2,651,402
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	442,366	(24,803)	417,563	(663,099)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	347,334	16,826	364,160	1,123,862
Change in IBNR				(349,515)
Changes in Assets and Liabilities				
Accounts Receivable, Net	66,593		66,593	(13,383)
Inventory				53,785
Accounts Payable	(45,874)	(2,356)	(48,230)	16,338
Compensated Absences	10,586	6,849	17,435	6,873
Other Operating Assets	(9,379)		(9,379)	
Interfund Activity	(22,615)		(22,615)	24,821
Total Adjustments	346,645	21,319	367,964	862,781
Net Cash Provided by Operating Activities	$ 789,011	$ (3,484)	$ 785,527	$ 199,682

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, 2011

	AGENCY FUNDS
ASSETS	
CASH	$ 3,036,397
INVESTMENTS, AT FAIR VALUE	21,304,734
TAXES RECEIVABLE	4,498,394
OTHER RECEIVABLES, NET	15,219
DUE FROM OTHER GOVERNMENTS	2,172
INVESTMENTS OF SURPLUS CASH, AT FAIR VALUE	16,519,855
TOTAL ASSETS	$ 45,376,771
LIABILITIES	
ACCOUNTS PAYABLE	$ 40,878,376
DEFERRED REVENUE	4,498,395
TOTAL LIABILITIES	$ 45,376,771

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. 54, Fund Balance Reporting and Governmental Fund Type Definitions beginning with the 2011 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 Rural County Sales Tax Fund is used to account for the rural counties public facilities tax levied under RCW 82.14.370. Revenues collected are restricted to finance public facilities dedicated to economic development purposes and finance personnel in economic development offices.
- 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 unassigned fund balance is a measure of available spendable resources.

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

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

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

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

PROPRIETARY FUND TYPES

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

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 2011 are adopted for the general, special revenue, and proprietary funds on the modified accrual cash basis of accounting for 2011 expenditures paid in 2011 and January 2012, plus 2010 expenditures paid after January 31, 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 up to $20,000 and corrections of account coding are authorized by the Budget Director with the approval of the County Board of Commissioners. Legal budgetary control is established at the fund level. The Board of Commissioners must approve by resolution any increase in fund total appropriations. 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 $2,507,133 in short-term investments and $50,322,466 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, 2011. 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 three 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 second 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.

   The third interfund loan was from the Capital Improvements Fund REET 1 to the Clean Water Utility Fund. This loan was made in order to provide sufficient operating cash for the Clean Water Utility Fund, as there was an unforeseen delay in implementing the fee billing system. The principal amount of $600,000 plus interest is to be repaid no later than December 31, 2012.

   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 $3,459,001 and other post employment benefits payable of $933,052. 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 Balance Classification – The County implemented GASB Statement No 54 Fund Balance Reporting and Governmental Fund Type Definitions beginning with the 2011 reporting year. In the fund financial statements, governmental funds report fund balances based on constraints placed on the use of those resources. Classifications of fund balances are based on the strength of controls placed on how amounts can be spent. Fund balance classifications are nonspendable, restricted, committed, assigned, and unassigned.

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

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

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

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

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

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

13. Fund Balance Details - The table on the following page provides the specific purpose of the County's fund balance classifications as of December 31, 2011.

    The December 31, 2010 balances of the General Fund and Other Governmental Funds were re-classed due to the new fund type definitions specified in GASB Statement No. 54. The details are disclosed in Note 19.

FUND BALANCE DETAILS

	General Fund	County Road Fund	Rural County Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable Fund Balance					
Interfund Receivables	180,000				180,000
Total Nonspendable Fund Balance	**180,000**				**180,000**
Restricted Fund Balance					
Law & Justice	92,530			140,299	232,829
Economic Development			2,047,304	1,443,705	3,491,009
Transportation				247,386	247,386
Health & Human Services				2,338,490	2,338,490
Parks & Recreation				449,432	449,432
Capital Projects	129,065			5,932,480	6,061,545
Other Purposes	1,500			439,460	440,960
Utilities & Environment	15,413				15,413
Total Restricted Fund Balance	**238,508**		**2,047,304**	**10,991,252**	**13,277,064**
Committed Fund Balance					
Parks & Recreation	64,300			437,586	501,886
Law & Justice	4,383			219	4,602
Transportation		10,472,642			10,472,642
Other Purposes				13,068	13,068
Economic Development				1,806	1,806
Captial Projects				30,000	30,000
Total Committed Fund Balance	**68,683**	**10,472,642**		**482,679**	**11,024,004**
Assigned Fund Balance					
Contigency	2,200,000				2,200,000
Other Purposes	131,197			25,401	156,598
Parks & Recreation	10,408			624,155	634,563
Law & Justice	22			511,734	511,756
Election Services	403,140				403,140
Transportation		142,615		91,989	234,604
Economic Development				498	498
Health and Human Services				273,787	273,787
Utilities & Environment				16,346	16,346
Education				154,178	154,178
Capital Projects				9,869	9,869
Total Assigned Fund Balance	**2,744,768**	**142,615**		**1,707,957**	**4,595,339**
Unassigned Fund Balance					
Unassigned	5,218,796			(177,330)	5,041,466
Total Unassigned Fund Balance	**5,218,796**			**(177,330)**	**5,041,466**
Total Fund Balance	**$8,450,754**	**$10,615,257**	**$2,047,304**	**$13,004,558**	**$34,117,873**

The non-spendable fund balance represents an interfund loan which is not in spendable funds. This is the remaining amount from an interfund loan to the Public Health Pooling Fund from the General Fund. The Public Health Pooling Fund has a negative fund balance which must be eliminated in order to repay the loan.

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

    At December 31, 2011 all funds had total fund balances in excess of two months revenue except Public Health Pooling, Alcohol and Substance Abuse Fund, and Enhanced 911 Fund. The Public Health Pooling Fund had a negative fund balance as discussed in Note 3. The General Fund will support the cash flow requirements of the Public Health Pooling fund if needed. The Alcohol and Substance Abuse Fund is $17 thousand short of the two months requirement and has an advance from a state agency which helps to support cash flow requirements. The Enhanced 911 Fund receives telephone taxes and has an agreement with I-COM to provide 911 service. The fund remits taxes collected in exchange for the services and therefore covers its cash flow needs.

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

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net 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	$ 92,603,225
Assets acquired during 2011	9,139,066
Current year assets disposition	(5,193)
Less Current year depreciation expense	(2,957,726)
Total	$ 98,779,372

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	$ (11,805,117)
Current year principal payments	990,420
Current year loan proceeds	(88,364)
Current year amortization of Bond Premium	17,520
Total	$ (10,885,541)

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	$	782,129
District Court receivables not available to finance expenditures		589,269
Note receivable balance water quality assistance at end of year		321,360
Debt refunding and issuance costs		612,048
Grant revenue receivable at end of year		1,143,657
Assets held for resale		24,947
Other Receivables		615,988
Total	$	4,089,398

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	$	716,151
Net Assets of Motor Pool Fund applicable to governmental funds		623,153
Net Assets of Equipment Rental and Revolving Fund applicable to governmental funds		10,340,611
Total	$	11,679,915

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	$	(3,257,129)
Other Post Employment Benefits payable at end of year		(633,051)
Interest due on long-term debt and other payables at year-end		(32,843)
Total	$	(4,223,023)

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 2011	$	9,139,067
Less Current year depreciation expense		2,957,726)
Less Current year assets disposition		(5,193)
Total	$	6,176,148

2. Proceeds of notes receivable provide current resources to governmental funds but decrease assets in the Statement of Net Assets. $ 44,182

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

Proceeds from other Debt	$	(110,715)

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	$	780,000
Capital Lease payments		3,158
Other Debt principal		207,261
Total	$	990,419

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	$	361,870
Change in Net Assets of Motor Pool Fund applicable to Governmental funds		(375,561)
Change in Net Assets of Equipment Rental and Revolving Fund applicable to governmental funds		(786,580)
Total	$	(800,271)

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

Compensated absences not available to finance expenditures	$	35,503
Interest due on long-term debt and other payables		(38,508)
Property tax levy not recognized as revenue		63,762
Other Post Employment benefits payable not requiring resources		(154,428)
Revenue receivable not available to finance expenditures		373,167
Total	$	279,496

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

All funds except Public Health Pooling have a positive fund balance. The deficit fund balance of $177,330 as of December 31, 2011, is covered by an interfund loan from the General Fund with a balance of $180,000. If the fund does not continue to decrease the deficit, the general fund will make an operating transfer to correct the deficit. The fund also has deferred grant revenue of $409,935.

The 2011 annual budget was adopted on the modified accrual cash basis which includes 2011 expenditures paid in 2011 and in January 2012 and 2010 expenditures paid after January 31, 2011. For the year ended December 31, 2011, expenditures exceeded appropriations in the following funds:

- County Law Library Fund $494 - The fund received 2011 invoices in January 2012 not included in budget amendments. The over expenditure was funded by available fund balance.
- Auditor O&M Fund $7,227 - The over expenditure was due to a large accrual at year end and was funded by available fund balance.
- Enhanced 911 Communications fund $139,037 - The over expenditure was due to a large accrual at year end. The over expenditure was funded by 2011 revenue.
- Water Quality Assistance Fund $4,739 - The fund entered into a new contract for 2011 that reimburses some admin costs under the grant. The admin costs were not recorded until after year end. The over expenditures was funded by available fund balance.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

The County invests all temporary 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	$ 2,757,133	$ 2,757,133
Total Cash Equivalents	2,757,133	2,757,133
Non-Current Investments		
Certificates of Deposit	6,000,000	6,000,000
U.S. Agency Issues	44,303,528	44,322,466
Total Investments of Surplus Cash	50,303,528	50,322,466
Other Investments		
Certificates of Deposit	4,019,300	4,019,300
State Treasurer's Investment Pool	17,285,433	17,285,433
Total Other Investments	21,304,733	21,304,733
Total Investments	$ 74,365,394	$74,384,332

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. This regular levy includes Veteran's Relief, Mental Health, and Developmental Disabilities. For 2011 the total is $.59983 on an assessment valuation of $12.7 billion. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The County is also authorized to levy $2.25 per $1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The county's road levy for 2011 was $.75566 per $1,000 on an assessed valuation of $10.6 billion. Special levies approved by the voters are not subject to the above limitations. In 2011, the county levied an additional $.05261 per $1,000 for Conservation Futures.

The County levied the following property taxes on the 2011 Levy for 2012 collection.

Purpose of Levy	Levy Rate per $1,000	Total Levy Amount
General Government	$ .56322	$7,179,159
Veteran's Relief	.01161	148,000
Mental Health Levy	.01250	159,333
Developmental Disability	.01250	159,333
Total General Government	.59983	$7,645,825
Conservation Futures	.05261	670,543
Road Levy	.75566	8,021,230
Total	$1.40810	$16,337,598

NOTE 6 – CAPITAL ASSETS

A. <u>CAPTIAL ASSETS</u> Capital assets activity for the year ended December 31, 2011 was as follows:

Governmental Activities	Beginning Balance 1/1/2011	Increases	Decreases	Ending Balance 12/31/2011
Capital assets, not being depreciated or amortized:				
Land	15,342,559	66,040		15,408,599
Construction in progress	1,272,855	1,358,983	(857,830)	1,774,008
Intangible Assets	4,133,065	546,888		4,679,953
<u>Total capital assets, not being depreciated or amortized</u>	20,748,479	1,971,911	(857,830)	21,862,560
Capital assets being depreciated or amortized:				
Buildings	35,596,570	719,286		36,315,856
Intangible Assets	2,512,069	206,213	(22,741)	2,695,541
Improvements other than buildings	5,148,204	154,578		5,302,782
Machinery and equipment	18,783,679	420,875	(887,236)	18,317,318
Infrastructure	66,350,819	6,865,460		73,216,279
<u>Total capital assets being depreciated or amortized</u>	128,391,341	8,366,412	(909,977)	135,847,776
Less accumulated depreciation or amortization for:				
Buildings	(13,964,802)	(682,606)		(14,647,408)
Intangible Assets	(1,081,791)	(328,582)	21,859	(1,388,514)
Improvements other than buildings	(2,677,005)	(166,324)		(2,843,329)
Machinery and equipment	(12,853,193)	(1,229,956)	874,148	(13,209,001)
Infrastructure	(15,291,199)	(1,674,246)		(16,965,445)
<u>Total accumulated depreciation or amortization</u>	(45,867,990)	(4,081,714)	896,007	(49,053,697)
<u>Total capital assets, being depreciated or amortized, net</u>	82,523,351	4,284,698	(13,970)	86,794,079
Governmental activities capital assets, net	**103,271,830**	**6,256,609**	**(871,800)**	**108,656,639**

Business-Type Activities	Beginning Balance 1/1/2011	Increases	Decreases	Ending Balance 12/31/2011
Capital assets, not being depreciated:				
Land	1,067,537			1,067,537
<u>Total capital assets, not being depreciated</u>	1,067,537			1,067,537
Capital assets being depreciated or amortized:				
Buildings	2,455,737			2,455,737
Intangible Assets	59,096			59,096
Improvements other than buildings	4,693,280	81,064		4,774,344
Machinery and equipment	2,368,493		(5,665)	2,362,828
<u>Total capital assets being depreciated or amortized</u>	9,576,606	81,064	(5,665)	9,652,005

Less accumulated depreciation or amortization for:				
Buildings	(1,028,658)	(57,130)		(1,085,788)
Intangible Assets	(8,864)	(5,910)		(14,774)
Improvements other than buildings	(2,455,876)	(204,564)		(2,660,440)
Machinery and equipment	(1,753,341)	(96,555)	5,665	(1,844,231)
Total accumulated depreciation or amortization	(5,246,739)	(364,159)	5,665	(5,605,233)
Total capital assets, being depreciated or amortized, net	4,329,867	(283,095)		4,046,772
Business-type activities capital assets, net	**5,397,404**	**(283,095)**		**5,114,309**

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

Governmental Activities	Amount
General Government	$ 551,238
Public Safety	574,143
Physical Environment	5,939
Transportation	2,535,134
Economic Environment	95,864
Health and Human Services	152,281
Culture and Recreation	167,115
Total Depreciation and Amortization– Governmental Activities	$ 4,081,714

Business-Type Activities	Amount
Solid Waste	$ 347,334
Four Springs Lake Preserve	16,825
Total Depreciation and Amortization – Business-Type Activities	$ 364,159

B. Collections Not Capitalized

The County has no collections that are not capitalized as of December 31, 2011.

C. Construction Commitments

The County has active construction projects as of December 31, 2011. At year-end the government's commitments with contractors are as follows:

Project		Spent to Date		Remaining Commitment
Various Road Projects		$1,088,262		$1,616,207
Glendale Creek Restoration		$144,934		$8,465
Frostad Road		$3,963,916		$160,832
Freeland Trail		$95,100		$32,410

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 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 AFC. 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. 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.

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 Director 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 could 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 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate 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 percent 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, 2011 are as follows:

Members not participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.25%	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 10.8% for Plan1 and 7.25% 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 4.64% for Plan 2.
*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.75%	9.75%	9.75%**
Employer- Local Govt.*	7.25%	7.25%	7.25%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Govt.	12.26%	11.60%	7.50%***

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

Both 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
2011	$ 35,180	$ 761,903	$ 132,474
2010	$ 28,519	$ 639,610	$ 119,238
2009	$ 53,029	$ 900,072	$ 163,335

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 (2) 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 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's 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 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Non-vested	3,656
Total	27,505

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
2011	$ 0	$ 126,969
2010	$ 0	$ 138,099
2009	$ 0	$156,562

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 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2010.

Retirees and Beneficiaries Receiving Benefits	7
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	4,210
Total	4,217

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, 2011, were as follows:

	PSERS Plan 2
Employer*	8.86%
Employee	6.36%

*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
2011	$ 49,665
2010	$ 53,144
2009	$ 60,878

Deferred Compensation Plan

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

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

NOTE 8 – RISK MANAGEMENT

Island County was one of the twenty-seven members of the Washington Counties Risk Pool ("Pool") during 2011. Other members include: 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 deficient year's membership.
The Pool's reassessments receivable balance at December 31, 2011 was at $0 as no contingent liabilities were known to exist at that time.

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 eight years. (Note: Additional limits of $5 million have been available several recent years as an option for acquisition as a member-by-member option.)

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 Py2011 with the addition of 744 new claims (and lawsuits) raising the 3rd-party liability claims to-date total submitted by member counties to 17,982. Estimates of incurred losses (payments made plus reserve estimates for open claims) increased $16 million during the year to $237.4 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 $2.6 billion participated in this program during Py2011.

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 13 property claims submitted for processing during Py2011 with incurred losses-to-date totaling $0.85 million. But during its first six years as an optional WCRP insuring program, there have been 78 property claims filed with incurred losses-to-date totaling nearly $9.75 million. With to-date premiums for this coverage totaling $13.75 million the resulting to-date loss ration is 0.71.

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 J. William Ashbaugh of Hackett Beecher & Hart; 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 2010 through September 2011):

- *Net Operating Income* was realized of $.8 million, a 58% decrease from the prior year.

- *Total Assets* grew $2.2 million (6%) to $41.1 million. Current assets increased $2.3 million (6%) while non-current assets decreased 4%.

- *Total* *Claims Reserves* for the Pool's direct reserving exposures increased to $15.0 million, up 6.7% from the prior year. This total includes: $5.6 million for losses in the Pool-only retained layer, down 9.3%; $8.6 million for the aggregated stop losses within the retained layers associated with the "corridor" program for automobile and general liabilities, up 22%; and $0.8 million for unallocated loss adjustment expenses, down 5% from one year ago. NOTE: *The corridor program is now five years old yet still not fully matured. Further, 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, while the program's occurrence minimum remains the greater of the applicable member's deductible or $100,000.*

- *Net Position* (formerly referred to as *Net Assets* and also known as *Members' Equity*) increased nearly $.08 million to $11.0 million as of September 30, 2011. Of the total, $5.5 million is classified as *Restricted Net Position* - $0.9 million to satisfy the State's solvency provisions (WAC 200.100.03001) plus $4.6 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 $4.4 million held as *Non-Restricted Net Position* is available for use as directed by the Pool's Board of Directors.

NOTE 9 – SHORT-TERM DEBT

The County has no short-term debt as of December 31, 2011. Current portion of the long-term debt payments are shown in Note 10.

NOTE 10 – LONG-TERM DEBT

A. Long-term Debt
The County issues general obligation bonds to finance the purchase of equipment and the construction of capital projects. Bonded indebtedness has also been entered into (in prior years) to advance refund several general obligation bonds. General obligation bonds have been issued for both general government and proprietary activities and are being repaid from the applicable resources. During 2011 the 1997 bond issue was paid off. All bonds issued for proprietary activities were paid off during 2007, only governmental funds have bond debt payable at December 31, 2011. The County is also liable for State Revolving Loans which are considered obligations of the general government and are being repaid with general governmental revenue.

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

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

General Obligation bonds currently outstanding are as follows:

	Purpose	Original Amount	Interest Rate	Amount of Installment
2005 Limited G.O. Bonds	Refunding part 1997A Bond Issue & Construction of Juvenile Detention Facility	7,510,000	Coupon rate of 3.0% to 4.2%	$ 862,495
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%	254,200
			Total	**$1,116,695**

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
2012	$ 730,000	$ 386,695
2013	770,000	357,995
2014	810,000	327,845
2015	855,000	296,610
2016	890,000	263,260
2017-2021	3,435,000	837,870
2022-2024	2,220,000	178,800
Total	$ 9,710,000	$ 2,649,075

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

Project Completion Date	Original Amount	Interest Rate	Amount at 12/31/11
7/1/09	$302,363	0.5%	$202,324
6/8/10	$197,614	1.1%	$154,285
10/31/11	$147,425	1.3%	$147,425
6/15/15	$ 79,550	1.4%	$79,550
11/30/01	$685,543	1.5%	$375,686
		Total	$959,270

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

Year Ending 31-Dec	Principal	Interest
2012	$ 160,637	$ 10,099
2013	$ 179,493	$ 8,290
2014	$ 181,278	$ 6,506
2015	$ 92,436	$ 4,785
2016	$ 87,830	$ 4,539
2016-2021	$ 257,596	$ 9,503
Total	$ 959,270	$ 43,722

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 2011 is $404,708 for governmental funds and $19,680 for business-type funds.

NOTE 11 – LEASES

A. Operating Leases

The County leases one office building and two 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 $52,039 for the year ended December 31, 2011.

Future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2012	$ 53,041
2013	$ 53,041
2014	$ 52,531
2015	$ 49,981
2016	$ 49,981
Total	$ 258,575

B. Capital Leases & Other Notes Payable

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

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

The future minimum lease obligations are $295 per month through December 2013, for a total of $7080. The present value of the lease payments is $6,759.

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2011, the following changes occurred in long–term liabilities:

	Beginning Balance 01/01/11	Additions	Reductions	Ending Balance 12/31/11	Due within One Year
Governmental Activities:					
General obligation bonds	$10,490,000	$	$ (780,000)	$9,710,000	$ 730,000
Amortization/Issuance Costs	227,033		(17,521)	209,512	17,520
Capital leases	9,917		(3,159)	6,758	3,303
Revolving State Fund	1,078,167	88,365	(207,262)	959,270	160,637
Compensated absences	3,316,770	1,682,094	(1,710,724)	3,288,140	404,708
Other Post Employment Benefits Payable	778,623	231,552	(77,123)	933,052	80,980
Governmental activity long - term liabilities:	$15,900,510	$ 2,002,011	$(2,795,789)	$15,106,732	$1,397,148
Business-Type Activities:					
Compensated absences	$ 153,426	$ 99,617	$ (82,182)	$ 170,861	$19,680
Business-type activity long-term liabilities:	$ 153,426	$ 99,617	$ (82,182)	$ 170,861	$19,680

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 $31,011 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 $27.87 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, 2011. These amounts will be cleared in 2012.

Interfund transfers of $4.1 million which includes (1) budget operating transfers of $3.2 million; (2) reimbursement transfers of $0.4 million; (3) $0.3 million of capital improvement transfers and (4) $0.2 million of other operating transfers. A schedule of interfund balances and transfers between funds is on the following page.

Island County

Schedule of Interfund Balances

For the Year Ended December 31, 2011

Due To

	Due From										
	Governmental Activities						Business-Type Activities				
	General Fund	County Road Fund	Rural County Sales Tax Fund	Other Governmental Funds	Internal Service Funds	**Subtotal Governmental Activities**	Solid Waste	Other Business-Type	**Total Business-Type**	Fiduciary Funds	**Total Due From**
Governmental Activities											
General Fund		6,297		335,146	344	341,787			-	-	341,787
County Road Fund				23,043	5,078	28,121			-		28,121
Rural County Sales Tax Fund						-			-		-
Other Governmental Funds	9,174	103,240		91,689	83	204,186			-		204,186
Internal Service Funds					396	396			-		396
Subtotal	9,174	109,537	-	449,878	5,901	574,490	-	-	-	-	574,490
Fiduciary Funds											
Business Type Activities-Solid Waste		10		3,684	1,580	5,274			-		5,274
Business Type Activities-Other					114	114			-		114
Total Due To	9,174	109,547	-	453,562	7,595	579,877	-	-	-	-	579,877

Schedule of Interfund Transfers

For the Year Ended December 31, 2011

Transfer In

	Transfer Out										
	Governmental Activities						Business-Type Activities				
	General Fund	County Road Fund	Rural County Sales Tax Fund	Other Governmental Fund	Internal Service Fund	**Subtotal Governmental Activities**	Solid Waste	Other Business-Type	**Total Business-Type**	Fiduciary Funds	**Total Transfer Out**
Governmental Activities											
General Fund		1,362,667	19,987	527,926	114,510	2,025,090	228,000	1,100	229,100		2,254,190
County Road Fund											
Rural County Sales Tax Fund											
Other Governmental Funds	1,179,056	593,667		52,392	41,000	1,866,115	96,900		96,900		1,963,015
Internal Service Funds	37,500					37,500					37,500
Subtotal	1,216,556	1,956,334	19,987	580,318	155,510	3,928,705	324,900	1,100	326,000		4,254,705
Fiduciary Funds											
Business Type Activities											
Solid Waste											
Other Business Type Funds											
Total Business Type Activities	-	-	-	-	-	-	-	-	-	-	-
Total Transfer In	1,216,556	1,956,334	19,987	580,318	155,510	3,928,705	324,900	1,100	326,000	-	4,254,705

NOTE 16 – RECEIVABLE AND PAYABLE BALANCES

A. Other Receivables, Net consist of:

	Governmental Activities	Business-Type Activities
Court fees and fines	$ 519,269	$
Accounts receivable, customers		487,092
Cable and telephone fees	460,549	
Interest on investments and property tax	129,942	
Miscellaneous	190,260	
Total	$ 1,300,020	$ 487,092

B. Accounts Payable consist of:

	Governmental Activities	Business-Type Activities
Invoices for daily operating expenses	$ 1,764,223	$ 275,687
Total	$ 1,764,223	$ 275,687

C. Other Current Liabilities consist of:

	Governmental Activities	Business-Type Activities
Payroll payable	$ 1,017,337	$ 60,602
Accrued interest on debt	32,843	
IBNR claims	202,000	
Total	$ 1,252,180	$ 60,602

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 $933,052 is included as a noncurrent liability on the Statement of Net Assets.

Determination of Annual Required Contribution:	Year Ending 12/31/2011
Normal Cost at year end	$ -
Amortization of UAAL*	269,014
Annual Required Contribution	$ 269,014

Determination of Net OPEB Obligation:	
Annual Required Contribution	$ 269,014
Interest on prior year Net OPEB Obligation	35,038
Adjustment to ARC	(72,501)
Annual OPEB Cost	231,551
Contribution made	(77,122)
Increase in Net OPEB Obligation	$154,429
Net OPEB Obligation-beginning of year	$778,623
Net OPEB Obligation-end of year	$933,052

*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 2011 and the preceding two years is as follows:

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

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, 2011 was as follows:

Actuarial Accrued Liability (AAL)	$2,889,092
Amount Accrued as of 12/31/11	(933,052)
Un-accrued Actuarial Liability	$1,956,040

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 2011, 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, 2011 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 $132,960 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

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

Those funds not meeting the revenue test consist of six funds that are inactive or have minimal activity, four funds used to account for rental properties, one park fund, the County Fair Fund, Fire Permit Fund, Election Fund, and a new Clean Water Utility Fund which had no 2011 revenue. Of these fifteen funds, fourteen had a total beginning fund balance of $509,426. These were reported as other governmental funds in prior years and are being reported as the general fund for 2011. This change does not affect the government wide financial statements as the amounts are reported as governmental activities in all years.

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

$566,190 be returned to the county. The district has issued a resolution to repay the county and repayment is expected in July 2012.

Since revenue in the funds statement is not recorded until it is available for expenditure, this amount will not be recorded in the 2011 period, there is no prior period adjustment on the funds statements.

ISLAND COUNTY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2011

General Fund (001)	**Budgeted Amounts**		**Actual Amounts**
	Original	**Final**	**(Budgetary Basis)**
Budgetary Fund Balance, January 1, 2011	$ 150,000	$ 185,250	$ 6,525,060
Resources (Inflows):			
TAXES	13,320,934	13,320,934	13,746,053
LICENSES AND PERMITS	914,000	914,000	1,048,162
INTERGOVERNMENTAL REVENUES	2,503,498	2,625,998	2,516,192
CHARGES FOR GOODS AND SERVICES	1,758,055	1,760,555	1,659,978
FINES AND FORFEITS	593,148	593,148	550,036
MISCELLANEOUS REVENUES	404,000	261,846	274,086
OTHER FINANCING SOURCES	1,879,000	1,919,000	2,033,265
Total Resources (Inflows)	21,372,635	21,395,481	21,827,772
Amounts Available for Appropriation	21,522,635	21,580,731	28,352,832
Charges to Appropriations(Outflows):			
GENERAL GOVERNMENT SERVICES	9,373,821	9,514,301	9,298,746
SECURITY OF PERSONS AND PROPERTY	7,602,699	7,593,448	7,380,127
UTILITIES AND ENVIRONMENT	196,014	222,014	220,032
TRANSPORTATION			0
ECONOMIC ENVIRONMENT	1,759,132	1,717,834	1,757,940
MENTAL AND PHYSICAL HEALTH	0	0	
CULTURE AND RECREATION	153,599	193,599	203,243
DEBT SERVICE	5,000	5,000	4,224
OTHER EXPENDITURES	431,598	327,263	258,866
OTHER FINANCING USES	2,000,772	2,007,272	1,214,377
Total Charges to Appropriations(Outflows)	21,522,635	21,580,731	20,337,555
Budgetary Fund Balance, December 31, 2011			$ 8,015,277

County Roads (101)	**Budgeted Amounts**		**Actual Amounts**
	Original	**Final**	**(Budgetary Basis)**
Budgetary Fund Balance, January 1, 2011	$ 13,113	$ -	$ 10,283,292
Resources (Inflows):			
TAXES	8,010,200	8,010,200	7,955,004
LICENSES AND PERMITS	82,142	82,142	82,750
INTERGOVERNMENTAL REVENUES	11,182,066	11,182,066	9,509,560
CHARGES FOR GOODS AND SERVICES	55,900	55,900	57,251
FINES AND FORFEITS	300	300	0
MISCELLANEOUS REVENUES	1,000	61,640	63,416
OTHER FINANCING SOURCES	11,000	24,113	21,948
Total Resources (Inflows)	19,342,608	19,416,361	17,689,929
Amounts Available for Appropriation	19,355,721	19,416,361	27,973,221
Charges to Appropriations(Outflows):			
GENERAL GOVERNMENT SERVICES			
UTILITIES AND ENVIRONMENT			
TRANSPORTATION	8,095,108	8,095,108	8,085,909
DEBT SERVICE	94,545	94,545	94,848
OTHER EXPENDITURES	9,477,654	9,477,654	7,235,299
OTHER FINANCING USES	1,688,414	1,749,054	1,956,334
Total Charges to Appropriations(Outflows)	19,355,721	19,416,361	17,372,390
Budgetary Fund Balance, December 31, 2011			$ 10,600,831

See accompanying notes to required supplementary information schedules.

ISLAND COUNTY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2011

Rural County Sales Tax (121)	**Budgeted Amounts**		**Actual Amounts**
	Original	**Final**	**(Budgetary Basis)**
Budgetary Fund Balance, January 1, 2011	$ 991,600	$ 1,991,600	$ 3,164,869
Resources (Inflows):			
TAXES	725,400	725,400	665,812
INTERGOVERNMENTAL REVENUES			
MISCELLANEOUS REVENUES		17,000	17,287
OTHER FINANCING SOURCES			
Total Resources (Inflows)	725,400	742,400	683,099
Amounts Available for Appropriation	1,717,000	2,734,000	3,847,968
Charges to Appropriations(Outflows):			
ECONOMIC ENVIRONMENT	1,717,000	2,714,300	1,647,657
OTHER FINANCING USES		19,700	19,987
Total Charges to Appropriations(Outflows)	1,717,000	2,734,000	1,667,644
Budgetary Fund Balance, December 31, 2011			$ 2,180,324

See notes to required supplementary information.

ISLAND COUNTY

OTHER POST EMPLOYMENT BENEFITS

LEOFF 1 RETIREMENT BENEFITS

For the Year Ended December 31, 2011

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

See accompanying notes to required supplementary information schedules.

NOTE 1 – Excesses of Expenditures over Appropriations

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

NOTE 2 – Budgetary Basis

In 2011, the County's budgetary basis is the modified accrual cash basis which includes any expenditures for 2010 that are paid after January 31, 2011 and all 2011 expenditures paid by January 31, 2012. Following are the adjustments for the budgetary basis of the major funds:

	General Fund	County Road Fund	Rural Sales Tax Fund
Fund Balance Budgetary Basis	8,015,277	10,600,831	2,180,324
Add: 2010 Amounts paid after 01/31/2011	147,404	42,061	141,076
Less: 2011 Amounts paid after 01/31/2012	(74,257)	(27,635)	(274,096)
Managerial Funds Fund Balance	362,330		
Fund Balance per Financial Statements	8,450,754	10,615,257	2,047,304

The County approves budgets for each County Fund. In 2011, the county implemented GASB 54 for financial reporting which provided new definitions for fund types. Funds which do not meet the substantial revenue test for special revenue funds are included in the General Fund for financial reporting purposes. These funds, referred to as managerial funds, are budgeted separately and therefore are not included in the budgetary basis of the General Fund. The total fund balance of the managerial funds included for financial reporting purposes is the $362,330.

NOTE 3 – Other Post Employment Benefits (OPEB)

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

ISLAND COUNTY, WASHINGTON

SCHEDULE OF LIABILITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

ID. No.	Description	Maturity/Payment Due Date __/__/20__	Beginning Balance 01/01/2011	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2011
251.11	2010 LTGO Bonds	12/1/2024	$ 5,240,000	$ -	$ 40,000	5910070	$ 5,200,000
251.11	2005 LTGO Bonds	12/1/2017	$ 5,160,000	$ -	$ 650,000	5910070	$ 4,510,000
251.11	1997A LTD GO Bonds	12/1/2017	$ 90,000	$ -	$ 90,000	5910070	$ -
259.11	Payroll Liability - Governmental Type		$ 3,316,770	$ 1,682,094	$ 1,710,724		$ 3,288,140
259.12	Payroll Liability - Business Type		$ 153,426	$ 99,617	$ 82,182		$ 170,861
263.22	County Landfill Closure Liability		$ 2,856,420	$ -	$ -		$ 2,856,420
263.51	Mail System Upgrade Lease (CS)	12/1/2013	$ 9,917	$ -	$ 3,158	5911870	$ 6,759
263.81	Iverson Farm Acquisition	11/30/2021	$ 410,258	$ -	$ 34,572	5910070	$ 375,686
263.81	Water Quality Assistance Loan L0300008	9/17/2011	$ 62,590	$ -	$ 62,590	5910070	$ -
263.81	Water Quality Assistance Loan L0600020	9/30/2014	$ 269,095	$ -	$ 66,770	5910070	$ 202,325
263.81	Water Quality Assistance Loan L0700005	6/8/2015	$ 192,787	$ 4,827	$ 43,329	5910070	$ 154,285
263.81	Water Quality Assistance Loan L1000014	10/31/2016	$ 143,437	$ 3,988	$ -	5910070	$ 147,425
263.81	Water Quality Assistance Loan L1100002	6/30/2020	$ -	$ 79,550	$ -	5910070	$ 79,550
263.93	Retired LEOFF Personnel Liability		$ 778,623	$ 231,552	$ 77,123		$ 933,052

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

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	$ 2,835		$ 2,835	
	National School Lunch Program	10.555	MOU	$ 5,451		$ 5,451	
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	$ 270,586		$ 270,586	
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C14949	$ 28,517		$ 28,517	
	WIC Farmers' Market Nutrition Program (FMNP)	10.572	C14949	410		410	
Department of Commerce NOAA / pass-through from WA State Dept. of Ecology	Coastal Zone Management Administration Awards	11.419	G1000001 / G1200011	81,153		81,153	
Department of Commerce - NOAA / pass-through from WA State Recreation and Conservation Office Salmon Recovery Board	Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program	11.438					
	Lead Entity - Salmon Recovery Program		09-1500P / 11-1477P	30,315			
	National Estuary Program		09-1500N	13,026			
	Ala Spit Restoration		08-1864 R	230,432			
			Subtotal	273,773		273,773	
U.S. Department of Justice Drug Enforcement Agency pass-through from Washington State Patrol	Law Enforcement Assistance Narcotics and Dangerous Drugs	16.001	C110849FED	1,514		1,514	
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	1,388		1,388	
U.S. Department of Justice - Bureau of Justice Assistance	Drug Court Discretionary Grant Program	16.585	2010-DC-BX-0047		23,017	23,017	
U.S. Department of Justice / pass-through from the Office of Crime Victims Advocacy	Violence Against Women Formula Grants	16.588	F10-31103-142 / F09-31103-056	9,527		9,527	
U.S. Department of Justice / Bureau of Justice Assistance	Bullet Proof Vest Partnership Program	16.607	ID04025006		6,795	6,795	

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, 2011

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 Office of Community Oriented Policing Services	Public Safety Partnership and Community Policing Grants	16.710	2009CKWX0187		6,499		
U.S. Department of Justice pass-through from Washington Association of Sheriffs and Police Chiefs			WSMI10104	1,013			
			Subtotal	1,013	6,499	7,512	
U.S. Department 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		1,259	1,259	3
U.S. Department of Transportation / pass-through from WA State Dept. of Transportation	Highway Planning and Construction	20.205	LA-6590	5,107			
			LA-7350	82,194			
			LA-7003	1,662			
			LA-7000	104,118			
			LA-7002	2,481			
			LA-7470	20,945			
			LA-6115	56,151			
			LA-7270	526,144			
			LA-7538	3,246			
	ARRA-Highway Planning and Construction	20.205	LA-6835	25,697			3
			Subtotal	827,745		827,745	
U.S. Department of Transportation / pass-through from Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	MOU	2,620			
U.S. Department of Transportation / pass-through from Washington Traffic Safety Commission			MOU	3,001			
			Subtotal	5,621		5,621	
U.S. Department of Transportation / pass-through from Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	MOU	5,030		5,030	
Environmental Protection Agency / pass-through from Washington State Dept. of Health	Puget Sound Action Agenda - Technical Investigations and Implementation Assistance Program	66.123	C14949	2,833		2,833	
Environmental Protection Agency / pass-through from Washington State Dept. of Ecology	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C14949	15,990		15,990	
Environmental Protection Agency / pass-through from Washington State University	Beach Monitoring and Notification Program Implementation Grants	66.472	C14949	8,500		8,500	

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, 2011

1	2	3	4	5			6
				Expenditures			
Federal Agency Name / Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-Note Ref.**
Department of Health and Human Services / pass-through from National Assoc. of County and City Health Officials	Medical Reserve Corps Small Grant Program	93.008	MRC-11441	5,000		5,000	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Social and Health Services	Public Health Emergency Preparedness	93.069	C14949				
	PHEPR LHJ Funding			50,279			
	PHEPR H1N1 Pandemic Influenza Focus 1			25,140			
			Subtotal	75,419		75,419	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	Maternal and Child Health Federal Consolidated Programs	93.110	C14949	2,500		2,500	
	Immunization Grants	93.268	C14949	6,276			2
	FA 317 Immunizations			3,279			
	AFIX Immunizations			16,081			
			Subtotal	25,636		25,636	
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	1,975			
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	9,425			
			Subtotal	11,400		11,400	
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					
	Superior Court Clerk		75-1501-0-1-609	43,069			
	Prosecuting Attorney		75-1501-0-1-609	59,753			
			Subtotal	102,822		102,822	
Department of Health and Human Services / pass-through from Washington Secretary of State	Voting Access for Individuals with Disabilities Grants to States	93.617	G-12/011	14,371		14,371	
U.S. Department of Health and Human Services / pass-through from the WA State Dept. of Health	**ARRA** - Immunization	93.712	C14949	1,832		1,832	2,3
	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	C14949	23,114		23,114	3

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, 2011

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 and Alcohol and Substance Abuse	Medical Assistance Program	93.778					
	Medicaid Administrative Match		0963-53329	126,307			
	Title XIX Waiver		0963-68036 / 1163-27304	71,256			
	Child Prev Oral Health		1163-33933	4,250			
			Subtotal	201,813		201,813	
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	3,420		3,420	
U.S. Department of Health and Human Services Substance Abuse and Mental Health Services /	Block Grants for Prevention and Treatment of Substance Abuse - Federal Grant in Aid	93.959	1163-27304	64,698			
pass-through from WA State Dept of Social and Health Services	Prevention & Treatment of Substance Abuse - Children's Transition Initiative		0963-68036	3,900			
	Prevention and Treatment of Substance Abuse - Prevention		0963-68036 / 1163-27304	50,044			
	Prevention and Treatment of Substance Abuse - Community Prevention Training		1163-27304	1,275			
			Subtotal	119,917		119,917	
Department of Health and Human Services pass-through from Washington State Social and Health Services	Preventive Health and Health Services Block Grant	93.991	1063-95382	4,191		4,191	
	Maternal and Child Health Services Block Grant to the States	93.994	C14949	42,425		42,425	
Department of Homeland Security / pass-through from WA State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	2009-37	22,510		22,510	
Department of Homeland Security / pass-through from WA State Military Department	Emergency Management Performance Grants (EMPG)	97.042	E10-318 / E12-065	11,992		11,992	
	Homeland Security Grant Program	97.067	E09-181 / E10-206	85,120			4
			K691-CCP	2,038			
			Subtotal	87,158		87,158	
Total Federal Awards Expended				$ 2,297,406	$ 37,570	$ 2,334,976	

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2- NONCASH AWARDS - VACCINATIONS

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

NOTE 3 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for the program were funded by ARRA.

NOTE 4 - AMOUNTS AWARDED TO SUBRECIPIANTS

Included in the the amount expended for this program is $ 26,935 that was passed through to a subrecipient that administered its own project.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

State Auditor	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
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Director of Audit	**Chuck Pfeil, CPA**
Director of Performance Audit	**Larisa Benson**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**
Website	**www.sao.wa.gov**
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