

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**Skagit County**

Audit Period  
**January 1, 2012 through December 31, 2012**

**Report No. 1010280**

Issue Date  
**August 26, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

August 26, 2013

Board of Commissioners  
Skagit County  
Mount Vernon, Washington

***Report on Financial Statements and Federal Single Audit***

Please find attached our report on Skagit County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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# Federal Summary

## Skagit County January 1, 2012 through December 31, 2012

The results of our audit of Skagit County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### **FINANCIAL STATEMENTS**

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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 unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.665	Schools and Roads Cluster - Schools and Roads - Grants to States
20.205	ARRA - Highway Planning and Construction Cluster - Highway Planning and Construction (Recovery Act)
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (Recover Act)
93.563	Child Support Enforcement
97.036	Disaster Grants - Public Assistance Program
97.056	Port Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$339,503.

The County did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Prior Federal Audit Findings

## Skagit County January 1, 2012 through December 31, 2012

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Skagit County. The State Auditor's Office has reviewed the status as presented by the County.

<b>Audit Period:</b> 1/1/2011-12/31/2011	<b>Report Reference No:</b> 1008099	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 81.128
<b>Federal Program Name and Granting Agency:</b> ARRA - Energy Efficiency and Conservation Block Grant Program, U.S. Department of Energy		<b>Pass-Through Agency Name:</b> Department of Commerce	
<b>Finding Caption:</b> The County did not did not comply with time and effort record requirements to support payroll costs charged to the federal American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program.			
<b>Background:</b> In November 2009, the U.S. Department of Energy awarded Skagit County a \$495,100 grant and in July 2010, the Washington State Department of Commerce awarded a \$56,000 grant for the Energy Efficiency and Conservation Block Grant Program paid for with American Recovery and Reinvestment Act funds.  The County used the grant money to develop an energy efficiency and conservation program. The program includes energy audits, financial incentive programs for energy efficiency and assistance with programs to conserve energy in buildings and transportation.  During our 2010 audit, we reported a finding related to cash management and cost principle requirements for this grant.  The County resolved most of the prior audit issues related to cash management and allowable costs of the grant. However, it was not able to take corrective action for payroll transactions it had already processed and for which it claimed reimbursement prior to August 2011.			
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The County has changed the level of documentation on timecards associated with these grant-funded positions to include the required certifications. This was changed in 2011 and continues today.</i>			

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Skagit County**  
**January 1, 2012 through December 31, 2012**

Board of Commissioners  
Skagit County  
Mount Vernon, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 27, 2013. During the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

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

In addition, we noted certain matters that we have reported to the management of the County in a separate letter dated June 27, 2013.

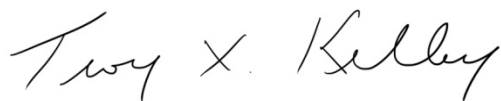
## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

June 27, 2013



# Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

**Skagit County**  
**January 1, 2012 through December 31, 2012**

Board of Commissioners  
Skagit County  
Mount Vernon, Washington

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

We have audited the compliance of Skagit 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, 2012. The County's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

**TROY KELLEY**  
STATE AUDITOR

June 27, 2013

# Independent Auditor's Report on Financial Statements

**Skagit County**  
**January 1, 2012 through December 31, 2012**

Board of Commissioners  
Skagit County  
Mount Vernon, Washington

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 12.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and County Road funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Matters of Emphasis***

As discussed in Note 1 to the financial statements, in 2012, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

**TROY KELLEY**  
STATE AUDITOR

June 27, 2013

# Financial Section

## **Skagit County January 1, 2012 through December 31, 2012**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2012

Statement of Activities – 2012

Balance Sheet – Governmental Funds – 2012

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – 2012

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2012

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2012

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund – 2012

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – County Road Fund – 2012

Statement of Net Position – Proprietary Funds – 2012

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2012

Statement of Cash Flows – Proprietary Funds – 2012

Statement of Fiduciary Net Position – Fiduciary Funds – 2012

Notes to Financial Statements – 2012

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

Schedule of Expenditures of Federal Awards – 2012

Notes to the Schedule of Expenditures of Federal Awards – 2012

This discussion and analysis provides a narrative overview of Skagit County's financial activities for the fiscal year ended December 31, 2012. It should be considered in conjunction with information contained in the financial statements and in the notes to the financial statements.

## **FINANCIAL HIGHLIGHTS**

- As of December 31, 2012, total assets of the County exceeded total liabilities by \$386.7 million. Net invested in capital assets (net of depreciation and related debt) account for 86% of this amount, at \$330.5 million. Of the remaining Net Position, \$28.2 million was restricted for specific purposes and \$27 million was unrestricted.
- Ending net position for governmental activities was \$382.4 million. Of that amount, \$324.9 million was invested in capital assets, \$28.1 million was restricted, and \$29 million was unrestricted.
- Ending unassigned fund balance for the General Fund was \$11.9 million, an increase of \$1.2 million over the previous year. This was due to a conservative approach to spending practices and unanticipated increases in unstable revenue streams.
- Ending fund balance for the County Road fund was \$6.5 million, a decrease of \$1.5 million over the previous year. This was mainly due to an increase in maintenance activities.
- Total long-term liabilities of the County were \$36.3 million at December 31, 2012.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements include the government-wide financial statements, the fund financial statements, and the notes to the financial statements.

### **Government-wide Financial Statements**

These statements include the Statement of Net Position and the Statement of Activities. They provide an integrated picture of the County's financial information as a whole, and are presented on the full accrual basis of accounting, a methodology similar to that used by private sector businesses. Revenues and expenses are recognized when earned or incurred, regardless of the timing of the receipts or payments. These statements distinguish between functions of government that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") and functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of Skagit County include law enforcement and public safety; the superior, juvenile, and district court systems; legal prosecution and indigent defense; jails and corrections; road construction and maintenance; planning and community development; parks and open space preservation; and care and welfare of the disadvantaged and mentally ill. Other general government services provided include elections, property assessment, tax collection, and the issuance of licenses. The business-type activities of Skagit County include solid waste disposal and a drainage utility.



The Statement of Net Position presents all of Skagit County's assets and liabilities, with the difference between the two reported as net position. Over time, changes in net position may serve as an indicator of whether the financial position of the County is improving or deteriorating. Non-financial indicators, such as the condition of infrastructure systems or changes in tax base, should also be considered in evaluating financial stability.

The statement of activities presents information showing how the government's net position changed during the year. It separates program revenue (generated by specific programs through charges for services, grants, and contributions) from general revenue (from taxes and other sources not generated by a particular program), showing to what extent each program relies on general revenues for funding.

The financial statements also include information for The Emergency Medical Services Commission and The Central Valley Ambulance Authority, component units of Skagit County. The component units are not covered in this discussion. Additional information concerning these entities may be found in Note I of the notes to the financial statements.

### **Fund Financial Statements**

Skagit County uses fund accounting to control and manage monies for specific purposes. Some funds may be mandated by state law or by other legal requirements.

### **Governmental Funds**

Most general government services are accounted for in the governmental funds, using the modified accrual basis of accounting. This method focuses on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. This perspective is narrower than that reflected in the government-wide financial statements, which focuses on a more long-term view. Reconciliation statements are provided which detail the differences between governmental activities in the government-wide statements and the information presented in the fund financial statements for the governmental funds.

Skagit County's major funds, the General Fund and the County Road Fund, are presented separately in the fund statements. Data for the remaining governmental funds are combined into a single, aggregated column.

### **Proprietary Funds**

Proprietary funds, which include enterprise and internal service funds, use the full accrual method of accounting and are used to account for functions which are intended to be self supporting by their rates and fees. Skagit County has two enterprise funds - solid waste and a drainage utility. Internal service funds are used to account for the County's vehicle fleet, medical and unemployment insurance, computer systems, and other administrative services.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. They are not reflected in the government-wide financial statements because those funds are not available for use by Skagit County.

**Skagit County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2012**

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Comprehensive Annual Financial Report (CAFR) also includes a Supplemental Schedules section that provides more detailed information about the County.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position**

Summarized information from the statement of Net Position, as compared to the prior year, is as follows:

	Governmental		Business-Type				
	Activities		Activities		Total		
	2012	2011	2012	2011	2012	2011	% Change
ASSETS							
Current and Other Assets	\$80,160,553	\$76,307,640	\$5,424,307	\$9,081,818	\$85,584,860	\$85,389,458	0.23%
Capital Assets and							
Construction in Progress (Net of Depreciation)	332,647,756	336,314,212	16,686,185	12,867,395	349,333,941	349,181,607	0.04%
Total Assets	412,808,309	412,621,852	22,110,492	21,949,213	434,918,801	434,571,065	0.08%
LIABILITIES							
Long-Term Liabilities	19,280,981	20,233,275	17,032,112	18,001,940	36,313,093	38,235,215	-5.03%
Other Liabilities	11,073,169	11,117,862	797,339	867,357	11,870,508	11,985,219	-0.96%
Total Liabilities	30,354,150	31,351,137	17,829,451	18,869,297	48,183,601	50,220,434	-4.06%
NET POSITION							
Net Investments in Capital Assets	324,989,837	327,995,991	6,207,740	4,669,373	331,197,577	332,665,364	-0.44%
Restricted	28,152,145	29,091,499	-	-	28,152,145	29,091,499	-3.23%
Unrestricted	29,312,177	24,183,225	(1,926,699)	(1,589,457)	27,385,478	22,593,768	21.21%
Total Net Position	\$382,454,159	381,270,715	\$4,281,041	3,079,916	\$386,735,200	\$384,350,631	0.62%

Of the \$85.6 million in current and other assets at December 31, 2012, \$62.6 million is cash, cash equivalents and investments. A very small portion of this amount, \$2.0 million, is restricted for specific purposes. Accounts receivable and amounts due from other governments total \$15.3 million. Inventories/prepayments total \$5.3 million. The remaining \$0.3 million is deferred charges. Cash, cash equivalents and investments represented 73.2% (compared to 78% in 2011), while accounts receivable and amounts due from other governments accounted for 17.9% (compared to 12.9% from 2011).

At December 31, 2012, the County had outstanding long-term liabilities of \$36.3 million. Of this total, \$5.6 million was due within one year. See Note V of the notes to the financial statements for more information regarding long term debt. Other liabilities amounted to \$11.9 million. These represent primarily accounts payable and accrued liabilities due as a result of ordinary operations.

The largest portion of the County's Net Position (85.5%) reflects its investment in capital assets, less any outstanding related debt used to acquire those assets. The County's capital assets are used to provide services to citizens and are therefore not available to finance future spending.

**Skagit County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2012**

Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, 7.3% of the County's net position is subject to legal restrictions for specific purposes. The remaining balance of Net Position, \$28 million (7.3%), is unrestricted and may be used to finance ongoing general operations of the County.

**Statement of Changes in Net Position**

The County's total Net Position increased by \$2.7 million in 2012, primarily due to conservative approach to spending practices and unanticipated increases in unstable revenue sources. Governmental activities reflected an increase of \$1.5 million while the Net Position of business-type activities increased \$1.2 million. Key elements in these changes are shown in the following table:

	Changes in Net Assets					
	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2012	2011	2012	2011	2012	2011
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$26,148,031	\$28,211,465	\$9,689,169	\$9,738,951	\$35,837,200	\$37,950,416
Operating Grants and Contributions	9,492,002	8,976,787	480,798	397,974	9,972,800	9,374,761
Capital Grants and Contributions	13,169,596	5,685,601	-	-	13,169,596	5,685,601
General Revenues						
Taxes	60,358,801	58,737,159	-	-	60,358,801	58,737,159
Interest Earnings on Investments	589,613	781,032	13,528	71,451	603,141	852,483
Gain/(Loss) on Sale of Assets		(118,394)	-	700	-	(117,694)
Total Revenues	109,758,043	\$102,273,650	10,183,495	\$10,209,076	119,941,538	112,482,726
<b>PROGRAM EXPENSES</b>						
General Government	32,996,294	29,694,591	-	-	32,996,294	29,694,591
Judicial	6,762,929	6,528,192	-	-	6,762,929	6,528,192
Public Safety	19,980,408	20,622,410	-	-	19,980,408	20,622,410
Physical Environment	2,729,881	2,672,643	-	-	2,729,881	2,672,643
Transportation	29,724,498	29,952,995	-	-	29,724,498	29,952,995
Economic Environment	3,233,397	3,162,607	-	-	3,233,397	3,162,607
Health and Human Services	10,391,910	10,387,711	-	-	10,391,910	10,387,711
Culture and Recreation	2,066,029	1,642,170	-	-	2,066,029	1,642,170
Solid Waste	-	-	6,952,600	7,252,470	6,952,600	7,252,470
Drainage Utility	-	-	1,716,453	1,412,499	1,716,453	1,412,499
Interest on Long Term Debt	222,519	516,260	498,826	545,115	721,345	1,061,375
Total Expenses	108,107,865	105,179,579	9,167,879	9,210,084	117,275,744	114,389,663
Excess (Deficiency) of Revenues Over (Under) Expenses before transfers	1,650,178	(2,905,929)	1,015,616	998,992	2,665,794	(1,906,937)
Transfers	(185,509)	9,142	185,509	(9,142)	-	-
Change in Net Position	1,464,669	(2,896,787)	1,201,125	989,850	2,665,794	(1,906,937)

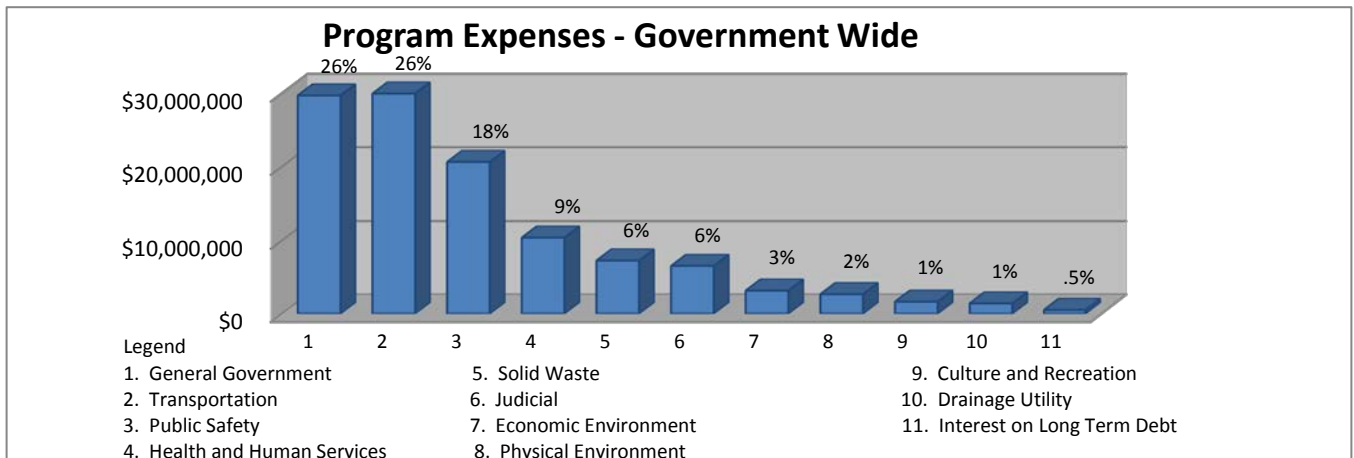
Total revenues were \$119.9 million in 2012, an increase of \$7.4 million from 2011. The main reason for the increase is the construction project grants received in 2012. Governmental activities provided \$109.8 million (92%), while business-type activities added \$10.2 million.

Within governmental activities, tax revenue accounted for 55% of total revenue sources, with grants and contributions accounting for 20.6% (up from 14.3% in 2011).

Charges for services accounted for 96.7% of the revenues of business type activities, with the remaining provided by interest and operating grants and contributions.

Total expenses for the year amounted to \$117.3 million, an increase of \$2.9 million from 2011. Governmental activities accounted for \$108.1 million (92%), with the largest program expenses in the areas of general government, transportation, and public safety. These three programs accounted for 76.5% of total governmental expenses. Of the \$9.2 million in business-type expenses, 76% is associated with the solid waste program, a 4.1% decrease from 2011.

The following graph illustrates 2012 government wide program spending:



## **FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

### **Governmental Funds Balance Sheet Analysis**

The General Fund and County Road Fund are the County's major funds in 2012. Together these funds account for 49.2% of total governmental fund assets and 40.3% of total governmental fund balances.

As of December 31, 2012, the County's governmental funds reported combined fund balances of \$45.6 million, an increase from \$45.2 million in 2011. Of this amount, \$45,681 (.01%) is Nonspendable, \$30.9 million (67.7%) is Restricted, \$2.8 million (6.1%) is reported as Committed, and \$11.9 million (26%) is unassigned and available for spending within the designated funds. Nonspendable, Restricted, Committed, and Assigned fund balance of \$33.7 million is not available for new spending because it has already been committed for prepaid expenses, loans, debt service, and inventory, as well as other special revenue funds requirements.

**Skagit County, Washington**  
**Management's Discussion and Analysis**  
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The General Fund is the primary operating fund of Skagit County. The unassigned fund balance of this fund increased from \$10.3 million at December 31, 2011, to \$11.9 million at December 31, 2012. Unassigned fund balance is 100% of the total fund balance. Total assets of the General Fund were \$19.5 million at December 31, 2012, accounting for 31.9% of total governmental fund assets. This represents an increase of \$1.1 million from 2011. These increases are a result of a conservative approach to spending policies as well as an increase in unstable revenue streams. Sales tax, and timber tax revenue increases constitute the main portion of unanticipated revenue sources.

### **Governmental Funds Revenue/Expenditure Analysis**

Total revenues for governmental funds were \$110 million in 2012. This represents an increase of \$9 million from 2011. This was mainly due to grants received for transportation construction projects. During the same period, total expenditures increased \$14 million. This increase is reflected primarily in the County Road Fund and based on two major construction projects. The General Fund and the County Road fund account for 72.8% of all governmental fund revenue (up from 69% in 2011) and 68% of all expenditures (up from 65% in 2011).

The net change in fund balance for the General Fund in 2012 was a positive \$1.2 million. The decrease in fund balance for the County Road fund was \$1.5 million. The non-major governmental funds had an overall positive change in fund balances of \$1 million for 2012.

### **Enterprise Funds Net Position Analysis**

Both enterprise funds of Skagit County, the Solid Waste Fund and the Drainage Utility Fund, are considered major funds for 2012. Comparative information from the proprietary funds' statement of Net Position is as follows:

	<b>Solid Waste</b>		<b>Drainage Utility</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and Cash Equivalents	\$1,823,196	\$5,500,155	\$2,784,564	\$2,955,436	\$4,607,760	\$8,455,591
Other Current Assets	1,015,240	821,292	86,637	111,323	1,101,877	932,615
Total Current Assets	2,838,436	\$6,321,447	2,871,201	\$3,066,759	5,709,637	9,388,206
<b>Non-Current Assets</b>						
Construction in Progress	8,636,979	6,528,022	666,271	671,931	9,303,250	7,199,953
Capital Assets	4,918,721	3,832,707	6,636,863	5,947,139	11,555,584	9,779,846
Less Accumulated Depreciation	(2,629,207)	(2,763,993)	(1,543,442)	(1,348,411)	(4,172,649)	(4,112,404)
Unamortized Debt Issue Costs	50,602	57,261	-	-	50,602	57,261
Total Non-Current Assets	10,977,095	7,653,997	5,759,692	5,270,659	16,736,787	12,924,656
Total Assets	13,815,531	\$13,975,444	8,630,893	\$8,337,418	22,446,424	22,312,862
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts/Vouchers Payable	493,285	667,001	189,917	69,909	683,202	736,910
Other Current Liabilities	1,428,823	1,448,847	119,246	120,249	1,548,069	1,569,096
Total Current Liabilities	1,922,108	2,115,848	309,163	190,158	2,231,271	2,306,006
<b>Non-Current Liabilities</b>						
Bonds Payable	9,679,046	10,507,186	-	-	9,679,046	10,507,186
Other Non-Current Liabilities	6,232,444	6,401,427	22,622	18,327	6,255,066	6,419,754
Total Non-Current Liabilities	15,911,490	16,908,613	22,622	18,327	15,934,112	16,926,940
Total Liabilities	17,833,598	19,024,461	331,785	208,485	18,165,383	19,232,946
<b>NET POSITION</b>						
Net Investment in Capital Assets	448,048	(601,286)	5,759,692	5,270,659	6,207,740	4,669,373
Unrestricted	(4,466,115)	(4,447,731)	2,539,416	2,858,274	(1,926,699)	(1,589,457)
Total Net Position	(\$4,018,067)	(5,049,017)	\$8,299,108	8,128,933	\$4,281,041	\$3,079,916

**Skagit County, Washington**  
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As of December 31, 2012, the enterprise funds reported combined Net Position of \$4.3 million (compared to \$3.1 million in 2011). This is the total of a \$4.0 million deficit in the Solid Waste Fund (down from \$5.1 million in 2011) and a positive \$8.3 million in the Drainage Utility Fund (up from \$8.1 million in 2011). The Solid Waste Fund reports an investment in capital assets, net of related debt, of \$.4 million. This is due to the closure and demolition of the incinerator in 2000, with the underlying debt remaining as a liability of the fund, as well as bonds issued for a new facility completed in 2012.

**Enterprise Funds Revenue/Expenditure Analysis**

The following table provides comparative information related to revenues, expenses and net changes in fund balance for the enterprise funds:

	Business-Type Activities - Enterprise Funds					
	Changes in Net Assets					
	Solid Waste		Drainage Utility		Total	
	2012	2011	2012	2011	2012	2011
<b>REVENUES</b>						
Charges for Services	\$8,061,432	\$8,194,581	\$1,604,197	\$1,544,370	\$9,665,629	\$9,738,951
Intergovernmental	450,144	397,974	30,654	71,451	480,798	469,425
Interest Revenue	4,580	21,360	8,948	11,540	13,528	32,900
Miscellaneous Revenue	23,540	-	-	-	23,540	-
Total Revenues	8,539,696	\$8,613,915	1,643,799	\$1,627,361	10,183,495	10,241,276
<b>EXPENSES</b>						
Personal Services	1,615,247	1,623,038	584,845	579,949	2,200,092	2,202,987
Contractual Services	4,485,237	4,508,628	-	-	4,485,237	4,508,628
Other Supplies and Expenses	778,354	1,041,032	936,577	648,820	1,714,931	1,689,852
Depreciation	73,762	44,494	195,031	183,730	268,793	228,224
Loss on Disposition of Capital Assets	-	(700)	-	-	-	(700)
Interest Expense	498,826	613,293	-	-	498,826	613,293
Total Expenses	7,451,426	7,829,785	1,716,453	1,412,499	9,167,879	9,242,284
Income (Loss) Before Transfers	1,088,270	784,130	(72,654)	214,862	1,015,616	998,992
Capital Contributions	-	-	-	-	-	-
Interfund Transfers	(57,320)	-	242,829	(9,142)	185,509	(9,142)
Change in Net Position	1,030,950	784,130	170,175	205,720	1,201,125	989,850
Net Position, January 1	(5,049,017)	(6,340,766)	8,128,933	7,917,565	3,079,916	1,576,799
Prior Period Adjustment	-	507,619	-	5,648	-	513,267
Net Position, January 1 - Restated	(5,049,017)	(5,833,147)	8,128,933	7,923,213	3,079,916	2,090,066
Net Position, December 31	(\$4,018,067)	(5,049,017)	\$8,299,108	8,128,933	4,281,041	\$3,079,916

Revenues from the Solid Waste Fund represent 84% of the total revenues for enterprise funds in 2012, remaining the same as 2011. Total expenses for the funds were 90% of revenues, an increase from 84.7% in 2011.

**Skagit County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2012**

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The following schedule provides a comparative analysis of the original and final amended General Fund budget:

**For the Year Ended December 31, 2012**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Variance Favorable (Unfavorable)</b>
BUDGETED FUND BALANCE, JANUARY 1	\$ 1,775,551	\$ 4,993,905	\$3,218,354
RESOURCES (IN-FLOWS)			
Taxes	32,024,000	32,024,000	-
Licenses & Permits	27,000	27,000	-
Intergovernmental Revenue	6,880,858	7,103,671	222,813
Charges for Goods and Services	4,285,803	4,300,553	14,750
Fines and Forfeits	1,781,950	1,781,950	-
Interest Revenue	525,525	525,525	-
Miscellaneous Revenues	375,897	395,135	19,238
Transfers In	176,574	176,574	-
Total Resources (in-flows)	<u>46,077,607</u>	<u>46,334,408</u>	<u>256,801</u>
Amounts Available for Appropriation	<u>47,853,158</u>	<u>51,328,313</u>	<u>3,475,155</u>
CHARGES TO APPROPRIATIONS (OUT-FLOWS)			
General Government Services	17,650,310	18,820,742	(1,170,432)
Judicial	8,127,275	8,441,301	(314,026)
Public Safety	16,719,809	16,728,529	(8,720)
Physical Environment	404,151	506,957	(102,806)
Economic Environment	128,011	128,011	-
Health and Human Services	-	-	-
Culture and Recreation	361,060	361,700	(640)
Debt Service	56,667	56,667	-
Capital Expenditures	185,000	343,670	(158,670)
Transfers Out	4,220,875	5,940,736	(1,719,861)
Amount Charged to Appropriations (out-flows)	<u>47,853,158</u>	<u>51,328,313</u>	<u>(3,475,155)</u>
BUDGETED FUND BALANCE, DECEMBER 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

The net increase in revenues in the final amended budget represented a favorable variance of .6%. The net increase in expenditures represented an unfavorable increase of .3%. Total budgeted expenditures increased more than revenue increased by approximately \$3.2 million.

**Skagit County, Washington**  
**Management's Discussion and Analysis**  
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The final budget appropriation for general government services reflected an increase that was softened by the incorporation of closure day savings. The increase was primarily due to new grant funding, one-time capital and information services project contributions, reserve for pending claims, and establishing a budget for a murder case and pro se defendant expenses that are handled by the Office of Assigned Counsel.

The following schedule provides an analysis of the final amended budget as compared to actual General Fund revenues and expenditures:

**General Fund Budget vs. Actual**  
**For the Year Ended December 31, 2012**

	<b>Final Budget</b>	<b>Actual</b>	<b>Changes Favorable (Unfavorable)</b>
FUND BALANCE, JANUARY 1	\$ 4,993,905	\$ 10,699,381	\$5,705,476
RESOURCES (IN-FLOWS)			
Taxes	32,024,000	33,485,928	1,461,928
Licenses & Permits	27,000	34,252	7,252
Intergovernmental Revenue	7,103,671	8,366,962	1,263,291
Charges for Goods and Services	4,300,553	4,332,473	31,920
Fines and Forfeits	1,781,950	1,719,310	(62,640)
Interest Revenue	525,525	441,399	(84,126)
Miscellaneous Revenues	395,135	730,590	335,456
Transfers In	176,574	176,094	(480)
Total Resources (in-flows)	46,334,408	49,287,009	2,952,601
Amounts Available for Appropriation	51,328,313	59,986,390	8,658,077
CHARGES TO APPROPRIATIONS (OUT-FLOWS)			
General Government Services	18,820,742	16,613,076	2,207,666
Judicial	8,441,301	8,192,507	248,794
Public Safety	16,728,529	16,212,356	516,173
Physical Environment	506,957	412,736	94,221
Economic Environment	128,011	112,339	15,672
Health and Human Services			0
Culture and Recreation	361,700	352,711	8,989
Debt Service	56,667	56,667	0
Capitalized Expenditures	343,670	313,118	30,552
Transfers Out	5,940,736	5,805,631	135,105
Amount Charged to Appropriations (out-flows)	51,328,313	48,071,141	3,257,172
FUND BALANCE, DECEMBER 31	\$0	\$11,915,249	\$11,915,249

The largest dollar variances are reflected in taxes and intergovernmental revenues. The increase in taxes category is attributable to an increase in sales tax revenue and timber tax increases. Revenues received from the State of Washington Department of Natural Resources for the sale of timber exceeded the budget of \$596,000 by nearly \$1 million. It is important to note that while the budget was not adjusted, the projections throughout the year included this revenue stream as it was received.



Actual expenditures were 3% less than budgeted. This is represented primarily by decreases in General Government Services and Public Safety, followed by overall decreases in all areas except Debt Service. The most significant variance is in General Government Services; this reflects a contingency line item that was not spent, a decrease in actual expenses in Central Services, and salary and benefit savings due to unfilled positions. The decrease in Public Safety is due primarily to salary and benefit savings from unfilled positions.

## **CAPITAL ASSETS AND LONG TERM DEBT**

### **Capital Assets**

The County's net capital assets were \$335 million at December 31, 2012. Construction in progress was an additional \$14.2 million. Capital assets include land, development rights, buildings, improvements, furniture and equipment, and infrastructure. Details of 2012 capital asset transactions are presented in Note IV.D of the notes to the financial statements.

During 2012 the County continued construction and remodeling of real property for County use. Ongoing projects include several road construction projects, design of a new jail facility, recreation center improvements, miscellaneous small parks projects, and a solid waste transfer facility.

### **Long-Term Debt**

At December 31, 2012, general obligation bonds payable as reported by governmental activities was \$11.8 million. This represents a \$1.2 million decrease from the prior year. Business type activities reported general obligation bonds payable of \$10.5 million, a decrease of \$.8 million.

The County's remaining legal capacity for non-voted debt at December 31, 2012 was approximately \$195.9 million.

Additional information relating to long-term debt can be found in Note V of the notes to the financial statements.

## **ECONOMIC FACTORS**

Despite the slight upturn, the Skagit County economy continued to feel the impacts of a global downturn and continued uncertainty. According to the Washington State Employment Security Department, the number of unemployed individuals in the County in December 2012 was 9.1% compared to 10.2% in December 2011. Sales tax collections for 2012, which accounted for approximately 14.7% of the County's General Fund budget, were up approximately 4.5% from collections in 2011 but still lag more than 7% behind the peak collections in 2008.

The County's overall financial position remains steady. Unassigned Net Position for governmental activities have increased by 24% compared to 2011. The County is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

There have been a series of voter initiatives over the last several years, as well as State of Washington, Local and Federal legal changes that continue to have an impact on future finances of the County. A listing of conditions and decisions that may significantly affect the future financial condition of the County follows:

- In April of 2003, the voters approved a 1/10<sup>th</sup> of 1% increase in sales tax to fund emergency communication systems and facilities.
- In December 2005, the Board of County Commissioners signed an Ordinance implementing a 1/10<sup>th</sup> of 1% increase in sales and use tax for the purpose of providing funds for new and expanded chemical dependency or mental health treatment services and for the operation of new or expanded therapeutic court programs.
- In December 2005, the Board of County Commissioners signed a resolution creating the Skagit County Clean Water (Shellfish Protection) District. While assessments were authorized at this time, collection didn't begin until the 2007 tax year. The assessment was authorized for 3 years. In September 2009, the Board of County Commissioners reauthorized the assessment for 5 years.
- In December 2011, the Board of County Commissioners signed a resolution authorizing a shift from the Road Levy in the amount of \$1,000,000 to the General Levy.
- In November 2010, the County issued Limited Tax General Obligation Bonds in the amount of \$9,740,000 for improvements to the County's solid waste transfer station and other capital improvements to County facilities.

The Jail continues to be overcrowded. Work continues with the County's partner agencies on a solution to this public safety issue. It is anticipated that debt may need to be issued to finance a new facility in the future.

### **Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either of the following:

Tim Holloran, County Administrator  
County Commissioner's Office  
1800 Continental Place, Suite 100  
Mount Vernon, WA 98273  
360-336-9300

Accounting Department  
Skagit County Auditor's Office  
PO Box 1306  
Mount Vernon, WA 98273  
360-336-9420

# SKAGIT COUNTY, WASHINGTON

## Statement of Net Position

December 31, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	EMS	CVA
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 49,359,237	\$ 4,607,760	\$ 53,966,997	\$ 96,403	\$ 607,405
Investments	8,671,594	-	8,671,594	3,339,132	
Accounts Receivables, Net	4,757,830	1,046,555	5,804,385		601,362
Due from Other Governments	9,417,639	55,322	9,472,961		
Internal Balances	335,932	(335,932)	-		
Inventories and Prepayments	5,299,325	0	5,299,325		
Deferred Charges	264,683	50,602	315,285		
Restricted Assets:			-		
Restricted for Debt Service:			-		
Cash/Cash Equivalents	81,751	-	81,751		
Investments	1,972,562	-	1,972,562		
Non Depreciated Capital Assets	170,978,606	793,060	171,771,666		
Capital Assets, Net	156,806,248	6,589,875	163,396,123	371,968	368,168
Construction in Progress	4,862,902	9,303,250	14,166,152		
Total Assets	<u>412,808,309</u>	<u>22,110,492</u>	<u>434,918,801</u>	<u>3,807,503</u>	<u>1,576,935</u>
<b>LIABILITIES</b>					
<u>Liabilities</u>					
Accounts Payable	7,959,972	683,201	8,643,173	34,615	53,392
Other Liabilities	2,740,548	114,138	2,854,686	21,838	161,658
Due to Other Governments	372,649	-	372,649	7,913	4,753
Long Term Liabilities:			-		
Due within One Year	4,410,123	1,190,433	5,600,556	59,293	342,845
Due in More Than One Year	14,870,858	15,841,679	30,712,537		
Total Liabilities	<u>30,354,150</u>	<u>17,829,451</u>	<u>48,183,601</u>	<u>123,659</u>	<u>562,648</u>
<u>Net Position</u>					
Net Investment in Capital Assets	324,989,837	6,207,740	331,197,577	371,968	368,168
Restricted for:					
General Government	4,786,615	-	4,786,615		
Public Safety	589,144	-	589,144		
Physical Environment	2,641,720	-	2,641,720		
Transportation	6,451,953	-	6,451,953		
Economic Environment	5,308,210	-	5,308,210		
Health & Human Services	6,013,592	-	6,013,592		
Culture and Recreation	309,598	-	309,598		
Debt Service	2,051,313	-	2,051,313		
Unrestricted	29,312,177	(1,926,699)	27,385,478	3,311,876	646,119
Total Net Position	<u>\$ 382,454,159</u>	<u>\$ 4,281,041</u>	<u>\$ 386,735,200</u>	<u>\$ 3,683,844</u>	<u>\$ 1,014,287</u>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Activities**  
**For the Year Ended December 31, 2012**

Net (Expenses) Revenues and Changes in Net Position							
Functions/Programs Primary Government:	Program Revenues			Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:	\$ 32,996,294	\$ 7,670,970	\$ 196,044	\$ -	\$ (25,129,280)	\$ -	\$ -
General Government	6,762,929	3,923,771	978,434	-	(1,860,724)	-	-
Judicial	19,980,408	2,813,154	1,996,676	289,587	(14,880,991)	-	(1,860,724)
Public Safety	2,729,881	201,726	339,485	156,611	(2,032,059)	-	(14,880,991)
Physical Environment	29,724,498	6,756,935	1,079,583	12,171,265	(9,716,715)	-	(2,032,059)
Transportation	3,233,397	1,088,468	902,064	552,133	(690,732)	-	(9,716,715)
Economic Environment	10,391,910	3,026,346	2,978,617	-	(4,386,947)	-	(690,732)
Health and Human Services	2,066,029	666,661	1,021,099	0	(378,269)	-	(4,386,947)
Culture and Recreation	222,519			-	(222,519)	-	(378,269)
Interest on Long Term Debt	108,107,865	26,148,031	9,492,002	13,169,596	(59,298,236)	-	(222,519)
Total Governmental Activities						-	(59,298,236)
Business-Type Activities	6,952,600	8,084,972	450,144	-	-	1,582,516	-
Solid Waste	1,716,453	1,604,197	30,654	-	-	(81,602)	-
Drainage Utility	8,669,053	9,689,169	480,798	-	-	1,500,914	-
Total Business-Type Activities							-
Total Primary Government	116,776,918	35,837,200	9,972,800	13,169,596	(59,298,236)	1,500,914	(57,797,322)
Component Unit							-
Emergency Medical Services Commission	3,919,042	16,040	4,095,548		-	-	0
Central Valley Ambulance Authority	4,142,699	2,550,986	1,517,350	43,320	-	-	(31,043)
Total Component Unit	8,061,741	2,567,026	5,612,898	43,320	-	-	(31,043)
General Revenues							
Property Taxes					41,460,187	-	-
Sales/Use Taxes					16,447,958	-	-
Other Taxes					2,450,656	-	-
Interest and Investment Earnings					589,613	(485,298)	3,669
Total General Revenues					60,948,414	(485,298)	-
Transfers					(185,509)	185,509	-
Total General Revenues and Transfers					60,762,905	(299,789)	-
Change in Net Position					1,464,669	1,201,125	2,665,794
Net Position, January 1					381,270,713	3,079,916	384,350,629
Prior Period Adjustments					(281,223)		(281,223)
Net Position, January 1, as Restated					380,989,490	3,079,916	384,069,406
Net Position, December 31					\$ 382,454,159	\$ 4,281,041	\$ 386,735,200
							\$ 3,683,844
							\$ 1,014,287

See accompanying notes to the financial statements

# SKAGIT COUNTY, WASHINGTON

## Balance Sheet Governmental Funds December 31, 2012

	Major Funds			
	General Fund	County Road Fund	Other Governmental Funds	Total
<b>ASSETS and OUTFLOWS of RESOURCES</b>				
Cash and Cash Equivalents	\$ 13,042,194	\$ 4,085,570	\$ 16,762,105	\$ 33,889,869
Investments	-	285,139	10,359,017	10,644,156
Taxes Receivable	1,045,780	454,081	327,408	1,827,269
Accounts Receivable, Net	1,976,718	413,705	51,420	2,441,843
Interest Receivable	14,699	-	-	14,699
Due from Other Funds	1,813,032	366,648	420,379	2,600,059
Due from Other Governments	1,597,489	4,935,619	2,818,238	9,351,346
Interfund Loans Receivable	0	-	263,500	263,500
Inventories and Prepayments	2,988	-	42,681	45,669
Total Assets	19,492,900	10,540,762	31,044,748	61,078,410
Deferred Outflows of Resources				
Total Assets and Deferred Outflows of Resources	19,492,900	10,540,762	31,044,748	61,078,410
<b>LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES</b>				
<u>Liabilities</u>				
Accounts and Vouchers Payable	641,175	1,348,581	1,664,727	3,654,483
Due to Other Funds	2,130,947	2,041,623	547,685	4,720,255
Due to Other Governmental Units	7,628	-	365,420	373,048
Accrued Wages Payable	859,047	211,517	254,931	1,325,495
Accrued Employee Benefits	149,455	38,575	62,595	250,625
Custodial Accounts	697,065	(5,568)	57,190	748,687
Deferred Revenue	3,092,334	454,081	581,338	4,127,753
Interfund Loans Payable	-	-	263,500	263,500
Total Liabilities	7,577,651	4,088,809	3,797,386	15,463,846
Deferred Inflows of Resources				
<u>Fund Balance</u>				
Nonspendable			45,681	45,681
Restricted	-	6,451,953	24,425,428	30,877,381
Committed	-	-	2,776,253	2,776,253
Assigned		-	0	-
Unassigned	11,915,249	-	0	11,915,249
Total Fund Balances	11,915,249	6,451,953	27,247,362	45,614,564
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 19,492,900	\$ 10,540,762	\$ 31,044,748	\$ 61,078,410

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Position**  
**December 31, 2012**

Total fund balances as shown on the Governmental Fund Balance Sheet	\$ 45,614,564
Net capital assets of governmental funds as of December 31, 2012	324,592,280
Capital assets used in the activities of governmental funds are not financial resources and therefore are not reported in the funds.	
Revenues deferred in the governmental funds and recognized as revenue of the current period on the statement of activities.	3,898,287
Net Position of the internal service funds	27,005,370
Internal service funds are included in governmental activities on the statement of net assets.	
Balance of long-term liabilities of the governmental funds as of December 31, 2012	(18,656,342)
Liabilities not due and payable in the current period are not reported in the governmental funds.	
	<hr/>
Total Net Position as reported on the Statement of Net Position	<u><u>\$ 382,454,159</u></u>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended December 31, 2012**

	Major Funds			
	General Fund	County Road Fund	Other Governmental Funds	Total
Revenues				
Property Taxes	\$ 23,436,996	\$ 10,797,049	\$ 7,035,966	\$ 41,270,011
Sales and Use Taxes	7,894,611	287,137	8,266,210	16,447,958
Other Taxes	2,154,321	46,854	249,481	2,450,656
Licenses and Permits	34,252	65,429	939,870	1,039,551
Intergovernmental Revenues	8,366,962	17,801,672	7,301,023	33,469,657
Charges for Services	4,332,473	1,869,335	4,107,840	10,309,648
Fines and Forfeits	1,719,310	-	133,487	1,852,797
Interest Earnings	441,399	19,763	123,409	584,571
Donations	15,777	-	558,529	574,306
Other Revenues	714,813	113,616	1,190,859	2,019,288
Total Revenues	<u>49,110,914</u>	<u>31,000,855</u>	<u>29,906,674</u>	<u>110,018,443</u>
Expenditures				
Current:				
General Government	16,613,076	502,045	996,840	18,111,961
Judicial	8,192,507	-	-	8,192,507
Public Safety	16,212,356	-	9,036,694	25,249,050
Physical Environment	412,737	-	3,170,363	3,583,100
Transportation	-	18,790,606	162,426	18,953,032
Economic Environment	112,338	-	3,489,865	3,602,203
Health and Human Services	-	-	12,060,459	12,060,459
Culture and Recreation	352,710	-	2,183,710	2,536,420
Debt Service:				
Principal	56,667	-	1,156,452	1,213,119
Interest	-	-	565,948	565,948
Capital Outlay	313,118	12,610,655	2,099,983	15,023,756
Total Expenditures	<u>42,265,509</u>	<u>31,903,306</u>	<u>34,922,740</u>	<u>109,091,555</u>
Excess (Deficit) Revenues Over Expenditures	<u>6,845,405</u>	<u>(902,451)</u>	<u>(5,016,066)</u>	<u>926,888</u>
Other Financing Sources (Uses)				
Issuance of Long Term Debt	-	-	353,939	353,939
Proceeds from Sale of Capital Assets	-	1,672	6,500	8,172
Transfers In	176,094	-	8,632,287	8,808,381
Transfers Out	(5,805,631)	(640,149)	(2,952,287)	(9,398,067)
Total Other Financing Source (Uses)	<u>(5,629,537)</u>	<u>(638,477)</u>	<u>6,040,439</u>	<u>(227,575)</u>
Net Change in Fund Balance	1,215,868	(1,540,928)	1,024,373	699,313
Fund Balance, January 1	10,699,381	7,992,881	26,504,212	45,196,474
Prior Period Adjustment	-	-	(281,223)	(281,223)
Fund Balance, January 1, as restated	<u>10,699,381</u>	<u>7,992,881</u>	<u>26,222,989</u>	<u>44,915,251</u>
Fund Balance, December 31	<u>\$ 11,915,249</u>	<u>\$ 6,451,953</u>	<u>\$ 27,247,362</u>	<u>\$ 45,614,564</u>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balance of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended December 31, 2012**

Net change in fund balances as shown on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 699,313
Net Capital Asset Activity	(3,766,160)
Purchases of capital assets are reported as expenditures in the governmental funds. On the government wide statements they are reported as assets and depreciated over their estimated useful lives.	
Net Internal Service Fund Activity	3,454,698
Internal service funds are included in governmental activities on the statement of Net Position	
Net Long-Term Debt Activity	886,642
In the governmental funds statements, proceeds of long term debt are considered revenues and debt principal payments are considered expenditures. These transactions are reported as increases and decreases in long-term debt liabilities on the government wide statements.	
Net change in deferred revenues and revenues not reportable on the modified accrual basis	190,176
Revenues are reported on the modified accrual basis for the governmental funds statements and on the full accrual basis for the statement of activities.	
	<hr/>
Change in Net Position as reflected in the Statement of Activities	<u><u>\$ 1,464,669</u></u>

See accompanying notes to the financial statements



**SKAGIT COUNTY, WASHINGTON**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual**  
**General Fund**  
**For the Year Ended December 31, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>Budgeted Fund Balance, January 1</b>	\$1,775,551	\$ 4,993,905	\$ 10,699,381	
<b>Resources (in-flows)</b>				
Taxes	32,024,000	32,024,000	33,485,928	1,461,928
Licenses and Permits	27,000	27,000	34,252	7,252
Intergovernmental Revenue	6,880,858	7,103,671	8,366,962	1,263,291
Charges for Services	4,285,803	4,300,553	4,332,473	31,920
Fines and Forfeits	1,781,950	1,781,950	1,719,310	(62,640)
Interest Revenue	525,525	525,525	441,399	(84,126)
Miscellaneous Revenues	375,897	395,135	730,590	335,455
Transfers In	176,574	176,574	176,094	(480)
<b>Total Resources (in-flows)</b>	<u>46,077,607</u>	<u>46,334,408</u>	<u>49,287,008</u>	<u>2,952,600</u>
<b>Amounts Available for Appropriation</b>	47,853,158	51,328,313	59,986,389	
<b>Charges to Appropriations (out-flows)</b>				
General Government	17,650,310	18,820,742	16,613,076	(2,207,666)
Judicial	8,127,275	8,441,301	8,192,507	(248,794)
Public Safety	16,719,809	16,728,529	16,212,356	(516,173)
Physical Environment	404,151	506,957	412,737	(94,220)
Economic Environment	128,011	128,011	112,338	(15,673)
Health and Human Services				-
Culture and Recreation	361,060	361,700	352,710	(8,990)
Debt Service	56,667	56,667	56,667	-
Capital Expenditures	185,000	343,670	313,118	(30,552)
Transfers Out	4,220,875	5,940,736	5,805,631	(135,105)
<b>Amount Charged to Appropriations (out-f</b>	<u>47,853,158</u>	<u>51,328,313</u>	<u>48,071,140</u>	<u>(3,257,173)</u>
<b>Budgeted Fund Balance, December 31</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,915,249</u>	

See accompanying notes to the financial statements.

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual**  
**County Road Fund**  
**For the Year Ended December 31, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>Budgeted Fund Balance, January 1</b>	<u>\$ 9,468,637</u>	<u>\$ 9,468,637</u>	<u>\$ 7,992,881</u>	
Resources (in-flows)				
General Property Taxes	9,922,000	9,922,000	10,797,049	875,049
Timber Harvest Taxes	200,000	200,000	287,137	87,137
Excise Taxes	40,000	40,000	46,854	6,854
Licenses and Permits	41,000	41,000	65,429	24,429
Intergovernmental Revenues	22,905,060	22,905,060	17,801,672	(5,103,388)
Charges for Services	1,738,000	1,738,000	1,869,335	131,335
Interest Earnings	21,000	21,000	19,763	(1,237)
Other Revenue	570,100	570,100	115,288	(454,812)
<b>Total Resources (in-flows)</b>	<u>35,437,160</u>	<u>35,437,160</u>	<u>31,002,527</u>	<u>(4,434,633)</u>
<b>Amounts Available for Appropriation</b>	44,905,797	44,905,797	38,995,408	
<b>Charges to Appropriations (out-flows)</b>				
General Government	95,629	95,629	502,045	406,416
Transportation	26,460,611	26,460,611	18,790,606	(7,670,005)
Capital Expenditures	18,081,000	18,081,000	12,610,655	(5,470,345)
Transfers Out	268,557	268,557	640,149	371,592
<b>Amount Charged to Appropriations (out-flows)</b>	<u>44,905,797</u>	<u>44,905,797</u>	<u>32,543,455</u>	<u>(12,362,342)</u>
<b>Budgeted Fund Balance, December 31</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,451,953</u>	

See accompanying notes to the financial statements.

# SKAGIT COUNTY, WASHINGTON

## Statement of Net Position

### Proprietary Funds

December 31, 2012

	Business-Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	*Internal Service Funds
<b>ASSETS</b>				
<u>Current Assets</u>				
Cash/Cash Equivalents	\$ 1,823,196	\$ 2,784,564	\$ 4,607,760	\$ 15,551,119
Accounts Receivable	959,918	86,637	1,046,555	474,019
Due From Other Funds		-	-	3,074,538
Due from Other Governments	55,322	-	55,322	66,293
Inventories/Prepayments	-	-	-	5,253,656
Total Current Assets	2,838,436	2,871,201	5,709,637	24,419,625
<u>Non-Current Assets</u>				
Capital Assets				
Land	595,379	197,681	793,060	-
Buildings	1,214,277	-	1,214,277	180,888
Improvements	1,301,780	6,409,613	7,711,393	-
Machinery and Equipment	1,807,285	29,569	1,836,854	17,011,187
Less Accumulated Depreciation	(2,629,207)	(1,543,442)	(4,172,649)	(9,136,599)
Construction In Progress	8,636,979	666,271	9,303,250	-
Unamortized Debt Issuance Costs	50,602	-	50,602	-
Total Non-Current Assets	10,977,095	5,759,692	16,736,787	8,055,476
Total Assets	13,815,531	8,630,893	22,446,424	32,475,101
<b>LIABILITIES AND FUND EQUITY</b>				
<u>Current Liabilities</u>				
Accounts/Vouchers Payable	493,285	189,917	683,201	4,305,488
Due to Other Funds	234,413	101,518	335,932	618,012
Interest Payable	36,843	-	36,843	-
Interfund Loans Payable				
Accrued Wages Payable	49,813	15,260	65,073	123,845
Accrued Employee Benefits	9,754	2,468	12,222	18,703
Accrued Taxes Payable	-	-	-	-
Other Accrued Liabilities	248,000	-	248,000	3,000
Bonds Payable	850,000	-	850,000	-
Total Current Liabilities	1,922,108	309,163	2,231,271	5,069,048
<u>Non-Current Liabilities</u>				
Compensated Absences	69,811	22,622	92,433	202,355
Post Closure Landfill Costs	3,172,349	-	3,172,349	-
Environmental Liability	2,990,284	-	2,990,284	198,328
Bonds Payable	9,679,046	-	9,679,046	-
Total Non-Current Liabilities	15,911,490	22,622	15,934,112	400,683
Total Liabilities	17,833,598	331,785	18,165,383	5,469,730
<u>Net Position</u>				
Net Investment in Capital Assets	448,048	5,759,692	6,207,740	8,055,476
Unrestricted	(4,466,115)	2,539,416	(1,926,699)	18,949,894
Total Net Position	\$ (4,018,067)	\$ 8,299,108	\$ 4,281,041	\$ 27,005,370

See accompanying notes to the financial statements

\*See Internal Service Funds section

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	*Internal Service Funds
<u>Operating Revenues</u>				
Charges for Services	\$ 8,061,432	\$ 1,604,197	\$ 9,665,629	\$ 15,309,311
Other Operating Revenue		-	-	10,821,384
Total Operating Revenues	<u>8,061,432</u>	<u>1,604,197</u>	<u>9,665,629</u>	<u>26,130,695</u>
<u>Operating Expenses</u>				
Personnel Services	1,615,247	584,845	2,200,092	4,366,234
Contractual Services	4,485,237	-	4,485,237	1,764,806
Supplies and Expenses	778,354	936,577	1,714,931	7,403,951
Depreciation	73,762	195,031	268,793	1,000,372
Payment to Claimants	-	-	-	8,367,754
Total Operating Expenses	<u>6,952,600</u>	<u>1,716,453</u>	<u>8,669,053</u>	<u>22,903,117</u>
Operating Income (Loss)	<u>1,108,832</u>	<u>(112,256)</u>	<u>996,576</u>	<u>3,227,578</u>
<u>Non-Operating Revenue (Expenses)</u>				
Intergovernmental Revenue	450,144	30,654	480,798	-
Interest Revenue	4,580	8,948	13,528	5,042
Miscellaneous Revenue	23,540	-	23,540	11,713
Gain (Loss) on Disposition of Capital Assets	-	-	-	(193,812)
Interest Expense	(498,826)	-	(498,826)	-
Miscellaneous Expense	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>(20,562)</u>	<u>39,602</u>	<u>19,040</u>	<u>(177,057)</u>
Income (Loss) before Transfers	1,088,270	(72,654)	1,015,616	3,050,521
Transfers In	-	252,829	252,829	404,177
Transfers Out	<u>(57,320)</u>	<u>(10,000)</u>	<u>(67,320)</u>	<u>-</u>
Change in Net Position	<u>1,030,950</u>	<u>170,175</u>	<u>1,201,125</u>	<u>3,454,698</u>
Net Position, January 1	(5,049,017)	8,128,933	3,079,916	23,550,672
Prior Period Adjustment	-	-	-	-
Net Position, January 1, as Restated	<u>(5,049,017)</u>	<u>8,128,933</u>	<u>3,079,916</u>	<u>23,550,672</u>
Net Position, December 31	<u>\$ (4,018,067)</u>	<u>\$ 8,299,108</u>	<u>\$ 4,281,041</u>	<u>\$ 27,005,370</u>

See accompanying notes to the financial statements

\*See Internal Service Funds section

# SKAGIT COUNTY, WASHINGTON

## Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2012

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	*Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 7,818,083	\$ 1,602,017	\$ 9,420,100	\$ 1,145,311
Receipts from Interfund Services Provided	-	-	-	24,589,692
Payments to Employees	(1,630,093)	(583,518)	(2,213,611)	(4,848,526)
Payments to Suppliers	(4,842,012)	(603,844)	(5,445,856)	(7,426,840)
Payments to Claimants	-	-	-	(8,452,160)
Payments for Interfund Services Used	(854,200)	(210,761)	(1,064,961)	(1,545,856)
Miscellaneous Receipts				74,653
Miscellaneous Payments	23,540	-	23,540	-
Net Cash Provided (Used)	515,318	203,894	719,212	3,536,274
Cash Flows From Non-Capital Financing Activities:				
Operating Grants Received	499,531	57,521	557,052	
Transfers to Other Funds		242,829	242,829	(218,642)
Net Cash Provided (Used)	499,531	300,350	799,881	(218,642)
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Capital Grant	-	-	-	124,985
Purchases of Capital Assets	(3,403,518)	(684,064)	(4,087,582)	(1,303,700)
Proceeds from Sale of Capital Assets	-	-	-	307,645
Principal Paid on Capital Debt	(820,000)	-	(820,000)	-
Interest Paid on Capital Debt	(472,870)	-	(472,870)	-
Other Receipts (Payments)	-	-	-	-
Net Cash Provided (Used)	(4,696,388)	(684,064)	(5,380,452)	(871,070)
Cash Flows from Investing Activities:				
Sale of Investments	-	-	-	-
Interest Earnings	4,580	8,948	13,528	5,041
Net Cash Provided	4,580	8,948	13,528	5,041
Net Change in Cash and Cash Equivalents	(3,676,959)	(170,872)	(3,847,831)	2,451,603
Balance, January 1	5,500,156	2,955,436	8,455,592	13,099,516
Balance, December 31	\$ 1,823,197	\$ 2,784,564	\$ 4,607,762	\$ 15,551,119

See accompanying notes to the financial statements

\*See Internal Service Funds section

# SKAGIT COUNTY, WASHINGTON

## Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2012

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	*Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ 1,108,832	\$ (112,256)	\$ 996,576	\$ 3,227,578
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	73,762	195,033	268,795	1,000,372
Miscellaneous Receipts	23,540	-	23,540	209,180
Changes in Assets and Liabilities:				
Receivables, Net	(243,349)	(2,181)	(245,530)	(530,220)
Prepayments	-	-	-	(413,773)
Inventories	-	-	-	218,898
Accounts and Other Payables	(447,467)	123,298	(324,169)	(175,761)
Net Cash Provided (Used) by Operating Activities	<u>\$ 515,318</u>	<u>\$ 203,894</u>	<u>\$ 719,212</u>	<u>\$ 3,536,274</u>

See accompanying notes to the financial statements

\*See Internal Service Funds section

**SKAGIT COUNTY, WASHINGTON**

**Statement of Fiduciary Net Position**

**Fiduciary Funds**

**December 31, 2012**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 37,072,033
Investments	244,314,901
Taxes Receivable	6,062,772
Deposits	<u>2,422</u>
Total Assets	<u><u>\$287,452,128</u></u>
LIABILITIES	
Warrants Payable	\$23,965,018
Custodial Accounts	<u>263,487,110</u>
Total Liabilities	<u><u>\$ 287,452,128</u></u>

See accompanying notes to the financial statements

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2012**

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**I. Summary of Significant Accounting Policies**

The financial statements of Skagit County have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government entities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles. The chart of accounts used by Skagit County conforms to the Budgeting, Accounting, and Reporting System (BARS) prescribed by the Washington State Office of the State Auditor.

**Reporting Entity**

Skagit County, a first-class county, was incorporated on November 28, 1883, under the Revised Code of Washington 36.04.390. The County operates under a commissioner form of government and provides such services as law enforcement, road construction and maintenance, solid waste management, permits and planning, parks and recreation, judicial administration, public health, social services and general administrative services. As required by GAAP, the financial statements present Skagit County, the primary government, and its discretely presented component units, the Skagit County Emergency Medical Services Commission (EMS) and Central Valley Ambulance Authority (CVAA).

In determining the financial reporting entity, the County complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." Accordingly, the County reports as component units those entities for which the County appoints a voting majority of the board of directors, upon which the County is able to impose its will, or where a financial benefit or burden exists.

The Skagit County Emergency Medical Services Commission was established on April 1, 2003 by Ordinance #O20030003 of the Board of County Commissioners. The EMS was established pursuant to the Revised Code of Washington 35.21.730 and 36.01.095 for the purpose of providing emergency medical services within the County. EMS is funded by an excess property tax levy approved by the voters through 2018. The Board of County Commissioners appoints the members of the EMS board and has final approval on the EMS operating budget. As of July 1, 2009, EMS no longer directly provided emergency medical services in Central Skagit County as per Ordinance #O20090003 adopted by the Board of County Commissioners.

In 2009, the Board of County commissioners engaged a consultant to analyze the service delivery of emergency medical services in Skagit County and that consultant made recommendations for certain changes. Based on that consultant's recommendations, the County Commissioners elected to split off the service provision portion of the EMS system, and created an ordinance to establish the Central Valley Ambulance Authority (CVAA) (Skagit County Code, Chapter 252). The Central Valley Ambulance Authority was established in April 2009 by Ordinance #O20090004 pursuant to the RCW 35.21.730 and Resolution #R20090255 established as a separate fund June 2009. The Board of County Commissioners appoints the members of the CVAA board and has final approval on the CVAA operating budget. The Central Valley Ambulance Authority is a governmental agency providing emergency medical care and transportation services to the citizens of Skagit County, mainly their response coverage area. CVAA began its operations July 1, 2009.



**Skagit County, Washington**  
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Both EMS and CVAA are presented discreetly in the Government-Wide financial statements, as required by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus."

More information concerning both the EMS Commission including complete financial statements can be obtained at their office located at 2911 E College Way Ste C, Mount Vernon, WA 98273. More information for the CVAA Authority, including complete financial statements can be obtained at their office located at 2015-A Hospital Drive, Sedro-Woolley, WA 98284.

The County is also responsible for appointing the members to the boards of the following organizations, but the accountability for these organizations does not extend beyond making the appointments:

Housing Authority Board of Skagit County
LaConner Regional Library Board
Public Facilities District Board
Sedro-Woolley SD Rural Library Board
Upper Skagit Library District

**Government-Wide and Fund Financial Statements**

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The component units are reported separately from the county.

The statement of activities reflects the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Additionally, the County allocates a portion of its indirect costs to individual functions. These indirect costs have been included as part of the program expenses reported for the various functional activities.

The County reports the following functions/programs:

*General Government* – Legislative and administrative services, including expenses for recording and elections, personnel administration, financial services, administration and facility management.

*Judicial* – Court system for civil, criminal, and juvenile cases, including jury and witness fees and other judicial and legal costs.

*Public Safety* – Protection and safety of the citizenry at large, including expenses for law enforcement, fire protection services, inspections and regulatory enforcements, detention and corrections, emergency services and juvenile services.

*Physical Environment* – Conservation and preservation of the environment, and animal control services.

**Skagit County, Washington**  
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*Transportation* – Programs to ensure safe and adequate flow of vehicles and pedestrians in the County, including costs for road and street preservation, construction, and maintenance.

*Economic Environment* – Community planning and development services, housing programs, and promotion of tourism.

*Health and Human Services* – Programs that provide prevention, intervention, and rehabilitative human services for County citizens with an emphasis on serving those most in need. They include costs associated with programs such as veterans' services, mental health, substance abuse prevention and treatment, public health, and children's services.

*Culture and Recreation* – Costs associated with the maintenance and general operations of County parks, trails, natural land and recreational facilities, and the fairgrounds.

Program revenues include charges for goods and services and grants or contributions that are restricted to the program's purpose. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund financial statements are used to report additional and more detailed information about the primary government. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The latter are excluded from the government wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Accordingly, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of 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 as soon as all eligibility requirements imposed by the provider have been met.

All governmental funds are presented using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Revenues susceptible to accrual are earned interest, certain charges for services, and intergovernmental revenues such as grants where program expenditures are the prime factor for determining reimbursement. Other revenues, such as licenses, fines and fees are not considered susceptible for accrual since they are not generally measureable until received. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

**Skagit County, Washington**  
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Expenditures are generally recorded when the related fund liability is incurred, as under accrual accounting. Skagit County reports the following major government funds:

- The General Fund is the County's primary operating fund. It is used to account for all activities of the general government not accounted for in another fund. The majority of revenues consist of property, sales, and other taxes and fees, and grant revenue.
- The County Road Fund accounts for the design, construction, and maintenance of County Roads. The majority of the revenues consist of property tax and grant revenue.

Skagit County reports two major proprietary funds:

- The Solid Waste Fund accounts for collection of fees and the cost of providing solid waste services to the residents of the County.
- The Drainage Utility Fund accounts for the collection of fees, charges and related revenues and the payment of costs related to drainage facilities.

Additionally, the County reports the following fund types:

- Internal Service Funds account for equipment rental, insurance, unemployment, and technology services provided to County departments and to other governments on a cost reimbursement basis.
- Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets (such as property taxes collected on behalf of other governments) that the County holds for others in an agency capacity. Agency funds include fire, school, port, cemetery, air pollution, city and town, library, dike and drain districts and miscellaneous clearing fund activity.

Private sector standards of accounting and financial reports issued prior to December 1, 1989 generally are followed in both 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 the same limitations. The County has elected not to apply subsequent private-sector guidance, with the exception of compliance with GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"*.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the various other functions of government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. The principal operating revenues of the Solid Waste Fund and the Drainage Utility Fund are charges to customers for sales and services.

Operating expenses for enterprise funds and internal service funds include the cost of personal service, contractual services, other supplies and expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Assets, Liabilities, and Equity**

Cash and Cash Equivalents

Cash held in checking accounts and petty cash are reported as cash on the financial statements of the government funds. Cash and cash equivalents reported on the government wide and proprietary funds' Statement of Net Position includes all demand deposits and investments with an initial maturity of three months or less.

Investments – See Note IV

Receivables and Payables

Amounts due for the exchange of goods and services between County funds are reported as due to or from other funds. Loans between funds are reported as interfund loans receivable or payable. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. Interfund balances between governmental funds and internal service funds have been eliminated and were not included in the government-wide statement of net position.

Taxes Receivable consists of property taxes levied and not yet paid, along with the related interest and penalties.

Accounts Receivable consists of amounts owed from private individuals for goods or services. All receivables have been recorded net of any estimated uncollectible amounts.

Interest Receivable consists of amounts earned but not yet received on investments held at the end of the year.

Prepayments made for services that will benefit future periods are recorded as prepaid items in both the government-wide and fund financial statements

Inventories

Inventory in the governmental funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when items are purchased. All inventories are valued by the first-in first-out method.

Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable, in enterprise funds. The current portion of related liabilities is shown as *Payables from Current Restricted Assets*. Specific debt service reserve requirements are described in Note V – Long Term Liabilities.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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The restricted assets of the enterprise and related debt service funds are composed of the following:

Special Assessments – Current	\$1,470,508
Special Assessments – Delinquent	102,179
Cash and Investments – Debt Service	1,064,774
Cash and Investments – Construction	1,046,049

Capital Assets – See Note IV

Capital assets include land, improvements, easements, buildings, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations. The County defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Infrastructure assets are long-lived assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, drainage systems and the ferry system.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements and in the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair value on the date received.

Improvements to capital assets that materially add to the value or extend the life of the asset are capitalized. Other repairs and normal maintenance are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital asset of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the County during the current fiscal year is \$1,064,774. Of this amount, \$1,046,049 was included as part of the cost of capital assets under construction in connection with facilities projects.

Infrastructure, buildings, improvements, equipment and vehicles are depreciated using the straight-line method. Estimated useful lives are as follows:

- Buildings – 5 to 40 years
- Improvements – 15 to 40 years
- Furniture and Equipment – 3 to 25 years
- Information Technology Equipment – 5 years
- Vehicles – 5 to 25 years
- Infrastructure – 20 to 65 years

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Compensated Absences

It is the County's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example as a result of employee resignations or retirements. The non-current portion for governmental funds is not reported in the governmental fund statements and represents a reconciling item between the fund and government-wide presentations.

County employees receive vacation and sick leave monthly at rates established by County resolution or union contract. At termination of employment, employees with a required length of service may receive cash payment for all accumulated vacation leave up to a maximum of 30 days. The payment is based upon current wages at termination. Accumulated sick leave is not paid at termination of employment unless an employee has at least five years of service and 480 hours of accrued sick leave banked. Retirees may receive cash payment for up to 240 hours, and non-retiree payment for up to 60 hours of accumulated sick leave if requested.

Deferred Revenues

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

Long-Term Obligations – See Note V

Fund Equity

Fund equity is recognized as fund balance in government fund types, and as net position in proprietary fund types. net position may be subject to legal restriction for a particular purpose. Unless otherwise noted, net position are unreserved and unrestricted. Fund balance has been reclassified in accordance with GASB Statement No. 54 as Nonspendable, Restricted, Committed, Assigned, and Unassigned. Further information regarding Fund balance categories is as follows:

*Nonspendable Fund Balance* – That portion of net resources that cannot be spent because of their form or because they must be maintained intact pursuant to legal or contractual requirements. Some examples of Nonspendable fund balances are inventory, prepaid amounts, long-term portion of loans/notes receivable, or property that is held for resale.

*Restricted Fund Balance* – That portion of net resources that contains limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.

*Committed Fund Balance* – That portion of net resources that contains limitations imposed at the highest level of decision making within the County, which is at the Board of County Commissioner level by adoption of a resolution.

*Assigned Fund Balance* – That portion of net resources that contains limitations resulting from intended use. The County has designated the Budget and Finance Director or the County Administrator with the authority to assign fund balance.

*Unassigned Fund Balance* – The residual net resources in excess of Nonspendable, Restricted, Committed, and Assigned.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Each government fund has to be analyzed to classify the fund balance in accordance with GASB Statement No. 54. Funds are created by the Board of County Commissioners and money is authorized to be transferred to the fund for a particular purpose. At this point, balances in these funds are at least committed, and may be further restricted depending on whether there is an external party, constitutional provision, or enabling legislation constraint involved.

The spending policy of government fund balance consists of Restricted resources used first, followed by Committed resources, then Assigned, and finally Unassigned Fund Balance.

The following shows the composition of the fund balance of the government funds for the fiscal year ended December 31, 2012:

	General Fund	County Road Fund	Capital Projects Funds	Debt Service Funds	Other Government funds	Total
<b>Fund Balances:</b>						
<b><i>Nonspendable:</i></b>						
Inventory					45,681	45,681
Loan Receivable						-
<b><i>Restricted For:</i></b>						-
General Govt Services			1,772,472	2,051,313	1,117,436	4,941,221
Public Safety					1,277,336	1,277,336
Utilities					2,634,373	2,634,373
Transportation		6,451,953			777,272	7,229,225
Natural & Economic Env			3,892,500		1,026,355	4,918,855
Social Services					7,302,225	7,302,225
Cultural & Recreation			2,264,548		309,598	2,574,146
<b><i>Committed to:</i></b>						-
General Govt Services					56,085	56,085
Judicial Activities						-
Public Safety					420,282	420,282
Utilities					931,198	931,198
Social Services					241,770	241,770
Cultural & Recreation					1,126,918	1,126,918
<b><i>Assigned to:</i></b>						-
<b><i>Unassigned</i></b>	11,915,249					11,915,249
<b>Total Fund Balances</b>	<b>11,915,249</b>	<b>6,451,953</b>	<b>7,929,520</b>	<b>2,051,313</b>	<b>17,266,529</b>	<b>45,614,564</b>

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Total governmental fund balances as reported on the governmental funds balance sheet differs from net position of governmental activities as reported on the statement of net position due to the different accounting methods applied in the preparation of these statements. The governmental fund statements are presented on the modified accrual basis and the statement of net position is presented on a full accrual basis. Also, net internal service fund activity is included in governmental activities.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Explanation of certain reconciling items reported on the reconciliation of the governmental funds balance sheet to the government wide statement of net position:

<b>Net Capital Assets</b>		
Total Capital Assets		\$ 571,438,872
Less Accumulated Depreciation		(251,709,494)
Construction in Progress		4,862,902
Net Capital Assets		<u>324,592,280</u>
<b>Long-Term Liabilities</b>		
Bonds Payable		\$ 11,825,000
Unamortized Bond Issue Costs		(264,683)
Unamortized Bond Discounts/Premiums		24,281
Loans Payable		3,848,382
Compensated Absences Liability		2,948,418
OPEB Liability		231,217
Accrued Interest Payable on Long-Term Liabilities		43,727
Long Term Liabilities		<u>\$ 18,656,342</u>

Explanation of certain reconciling items reported on the reconciliation of the statement of revenues, expenditures, and changes in fund balances to the government wide statement of activities:

<b>Net Capital Assets Activity</b>		
Net Capital Expenditures Subject to Capitalization		\$ 14,840,366
Depreciation Expense		(18,606,526)
Net Capital Assets		<u>(3,766,160)</u>
<b>Net Long-Term Debt Activity</b>		
Proceeds of Long Term Debt		\$ (353,939)
Principal Payments		1,567,057
Amortization of Bond Discounts/Premiums		15,959
Amortization of Bond Issue Costs		(26,468)
Change in Compensated Absences Liability		(410,130)
Change in OPEB Liability		94,163
Net Long-Term Debt Activity		<u>\$ 886,642</u>

### **III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### Scope of Budget

The annual budget for Skagit County is adopted in accordance with the provisions of the Revised Code of Washington (RCW), as interpreted by the Budgeting, Accounting, and Reporting System (BARS) of the State of Washington, and on a basis consistent with generally accepted accounting principles. All government funds with the exception of the Treasurer's O&M fund, as per RCW 84.56.020(9), have legally adopted budgets.

The annual appropriated budget is adopted at the department level within the general fund. Other budgets are adopted at the level of the fund. For management purposes, expenditures are further segregated by object class of expenditure. Object class refers to a segmentation of expenditures into five categories. These categories are salaries and wages, personnel benefits, supplies, other services and charges, and capital expenditures. Expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. All appropriations lapse thirty days after the close of each fiscal year.



**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Budget status reports are used to compare the budgeted amounts with actual revenues and expenditures. Revenues and expenditures can be monitored at fund, department, division, activity, project, or object class level.

Procedures for Adopting the Original Budget

Skagit County adheres to the statutory provisions established by Revised Code of Washington (RCW) 36.40. Significant procedures in the budget process include the following:

- On or before the second Monday in July, County officials are requested to prepare estimates of revenues and expenditures for the next fiscal year.
- On or before the second Monday in August, each County official submits detailed estimates of probable revenues and expenditures for the ensuing year.
- On or before the first Tuesday in September, the preliminary annual budget is submitted to the Board of County Commissioners.
- The Commissioners conduct public meetings on the proposed budget from September through October.
- The preliminary budget is made available to the public at least 2 weeks prior to the public hearing.
- The Commissioners hold a public hearing on or before the first Monday in December to receive testimony on the budget.
- The Commissioners make adjustments to the proposed budget and adopt, by resolution, a final balanced budget no later than December 31.
- Upon adoption, the final budget is made available to the public.

Amending the Budget

Budget revisions in the form of supplemental appropriation resolutions are approved by the Board of County Commissioners in the legally prescribed manner during public meetings throughout the year. Any proposed revisions which alter the total appropriation of any fund are published in the County's legal newspaper once per week for two consecutive weeks before the public hearing to enable taxpayer input. Changes to the appropriation for object classes that do not alter the total budget for any fund may be made by resolution approved by a simple majority during any public meeting.

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 legally authorized changes applicable for the fiscal year.

**Deficit Fund Equity**

The following fund had deficit fund balances/net position as of December 31, 2012;

- The Solid Waste fund deficit was \$4,018,067. This results primarily from the recording of liabilities for landfill post closure care costs and environmental remediation costs.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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**IV. DETAIL INFORMATION BY TRANSACTION TYPE**

**A. Deposits and Investments**

Deposits

The Skagit County Treasurer is empowered by the State to act as the treasurer not only for the County but also for special purpose districts located in the County. It is the County's policy to deposit and invest all temporary cash surpluses. At the end of the year, the total amount held in certificates of deposit and money market accounts was \$25,688,680 and the treasurer's bank balance was \$9,146,324, all of which was covered by federal depository insurance or collateralized with securities which are either held by the County or by the County's agent in the County's name. The FDIC (Federal Depository Insurance Corporation) insures all deposits of the County up to \$250,000 and the Washington Public Deposit Protection Commission insures amounts over \$100,000. On January 1, 2014, the standard insurance will return to the \$100,000 per depositor for all account categories except certain retirement accounts, which will remain at \$250,000 per depositor.

Investments

As required by Washington State law, all investments of Skagit County and applicable agency funds are obligations of the United States Government, the State Treasurer's Investment Pool, commercial paper, or deposits with Washington State banks and savings and loan institutions. US Government securities and commercial paper are stated at fair value. All other investments are stated at amortized cost which approximates fair value. The fair value of the County's position in the State Treasurer's Local Government Investment Pool (LGIP) is the same as the value of the pool shares. Authority to manage the Skagit County Investment Program derives from RCW 36.29.020. Regulatory oversight is provided by the County Finance Committee, comprised of the Treasurer as Chair, the Auditor as Secretary, and the Chair of the Board of County Commissioners. The State LGIP was created by the Washington State Legislature in 1986 and is overseen by the State Treasurer. The State Finance Committee administers the pool and is advised by the LGIP Committee, comprised of twelve members selected from the active pool participants. The pool is operated in a manner consistent with the SEC Rule 2a7. Net investment income is allocated monthly to participants and is based on their average proportionate share of Net Position in relation to the total net investment income for the LGIP for that month. Allocations are reinvested in the LGIP.

Management intends to hold time deposits and securities until maturity. Gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

**Skagit County, Washington**  
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As of December 31, 2012, the County held the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Less Than 1 Year Maturity</b>	<b>1 Year</b>	<b>2 Years</b>	<b>3 years</b>
Certificates of Deposit	\$ 16,389,234	\$ 9,163,950	\$ 6,364,519	\$ 200,000	\$ 660,765
Money Market	9,299,446	9,299,446			
Registered Warrants	373,355	373,355			
Commercial Paper	-	-	-		
Bankers Acceptances	-	-			
Treasury Notes	4,008,146	3,204,380	803,766	-	
Municipal Bonds	27,270,719	6,185,379	14,365,994	5,776,258	943,087
U.S. Agencies	103,271,868	21,594,952	45,593,618	29,308,034	6,775,265
State Treasurer Pool	179,434,522	179,434,522			
	<b>\$ 340,047,290</b>	<b>\$ 229,255,984</b>	<b>\$67,127,897</b>	<b>\$35,284,292</b>	<b>\$8,379,117</b>

Total fair value of investments represents \$92,452,859 for Skagit County and \$247,594,431 for the Junior Taxing districts.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits not to exceed 36 months unless matched to a specific cash flow requirement. Funds specifically designated for capital improvements or for bond redemption purposes may in certain circumstances be invested out to five years.

Custodial Credit Risk

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the county would not be able to recover the value of the investment or collateral securities. The County had no custodial credit risk as of December 31, 2012.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County's policy is to limit to 15 percent of the total portfolio the amount that may be invested in any one financial institution. In addition, no more than 3 percent of the total portfolio may be invested in any one issuer of commercial paper and no more than 10 percent may be invested in any one Treasury obligation. As of December 31, 2008 the investment in the Washington State LGIP was limited to 65 percent, this was modified by resolution on March 16, 2009 to allow investment in excess of 65 percent when there are no other viable alternatives. At year end, the County had no investment in a single issuer that was greater than 5 percent of total investments.

Federal Arbitrage

Federal Arbitrage is the ability to obtain tax-exempt bond proceeds and invest the funds into higher yielding taxable securities, resulting in a profit. The County had no federal arbitrage in 2012.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's investment policy is to apply the prudent-person rule: Investments shall be made with the exercise of judgment and care which persons of prudence, discretion and intelligence exercise in the management of their affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The County's policy limits investments in commercial paper to ratings of A1 or P1 only.

As of December 31, 2012, the County's investments in U.S. Agencies in the amount of \$106,437,545 (fair value) was rated AAA by Standard & Poor's, an additional amount of \$1,800,867 (fair value) was rated AAA by Moody's. Details of ratings on investments in municipal bonds and banker's acceptances are as follows:

Municipal Bonds	Fair Value	Standard & Poor	Moody's	Fitch	Municipal Bonds	Fair Value	Standard & Poor	Moody's	Fitch
Albuquerque NM Gen	1,023,630	Aa1	AAA	AA+	Milwaukee, WI	90,498	Aa1	AA	AA+
Alderwood Wtr Waste	265,993	Aa2	AA+		North Bend WA	122,899	AA-		
American Fork City UT	155,529	Aa3			No Slope Barrows AK	262,830	Aa3	AA-	AA-
Charlotte NC	160,946	Aaa	AAA	AAA	Okanogan Co	185,483	A+		
Chelan Co PUD	1,074,549	Aa2	AA		ORE St Energy Proj	200,142	Aa1	AA+	AA+
City of NY, NY	401,452	Aa2	AA	AA	ORE St School Board	299,445	Aa2	A+	
City of Tacoma WA	294,006	Aa3	AA	AA-	Pima Co SD #1	501,895	Aa2	AA-	
City of Vancouver WA	25,345	Aa3	AA		Port of Seattle	1,103,763	Aa2	Aa+	A+
Clark Co WAsD 114	232,776	Aa2			Port of Tacoma	971,717	Aa3	AA-	
Co & City of Honolulu	538,169	Aa1	AA+		Salt Lake City UT	1,327,759	Aaa	AAA	AAA
Cowlitz Co RFDG	215,808	A1			Seattle Solid Waste	225,144	Aa3	AA-	
Cowlitz Co SD 122	162,722	Aa1	AA		Seattle Wtr & Swr	177,824	Aa1	AA+	
Cypress-Fairbanks	108,661	Aaa	AAA		Shelby Co TN	1,073,920	Aa1	AA+	AA+
Denton Co TX Perm	132,632	Aaa	AAA		Shoreline WA	108,929	AA+		
Des Moines WA	117,448	A2			Skagit Co PUD	131,340	Aa2		
Douglas Co PUD	299,949	Aa	Aa3		Sno Co BABS	71,450	Aa2	AA	
Eastern Wa University	205,026	A1			Sno Co SD	101,456	Aa2	AA+	
ESD #113	193,817	A1			Sno Co SD #15	521,720	Aa1	AA+	
Everett, WA	202,942	AA+			Snohomish Co PUD	257,593	Aa3	AA-	AA-
Fife Wa	51,065	A+			Snohomish Hsptl #2	422,157	Aa3		
Forsyth Co GA	944,187	Aaa	AA+		Sound Transit	145,552	Aa1	AAA	
Franklin Co Wa	684,076	AA-			Spokane Co Series D	25,196	AA	Aa2	
Garland TX	312,162	Aa3	AA+	AAA	St Paul MN Cap Imp	103,451	Aa1	AAA	
Grant Co PUD	258,708	AAA	Aa3	AA	Stanwood Wtr Swr	50,539	AA-		
Grant Co SD #161	77,651	Aa1			State of Minnesota	322,038	Aa1	AA+	AA+
Green Bay Pub SD	484,896	Aa1			Tacoma Solid Waste	108,622	Aa2	AA	
Hampden & Wilbram	250,997	Aa3			Tualatin Hills OR Prk	680,182	Aa1	AA	
Island Co SD #204	50,758	Aa1	A1		Tukwila SD #406 King	985,729	Aa1		
Jerome/Lincoln SD	60,682	Aa1			Vancouver W WtrSwr	212,614	Aa2	AA-	
Kauai Co BABS	30,295	Aa2	AA	AA	Wa Co SD #15	114,772	AA	A+	
King Co Fire #38	65,807	A+			Wa Co SD #48J	169,978	Aa1	AA+	
King Co SD #400	95,864	Aa1			WA State College SB	84,781	Aa1	AA+	AA+
King Co SD #401	265,818	Aa1	AA+	AA-	Wa State COPS	437,483	Aa2		
King Co SD #411	123,826	AA1	AAA		Wa State Health Care	101,893	Aa	AA	Aa2
Lane Co OR SD	691,450	AA+			Wa State M Veh Fuel	342,368	Aa1	AA+	AA+
Leavenworth WA Snk	120,742	A			Wa State Var Purpose	743,722	Aa1	AA+	AA+
Lewiston Town, NY	1,004,530	MIG1			Walla Walla Wa	128,276	Aa3	A+	
Lk Whatcom Wtr Swr	25,503	AA+	A+		Wasatch Co UT SD	126,560	Aaa		
Maricopa Co AZ SD #B1	106,664	AA-	Aa3		Wash Co UT	25,131	Aaa	AAA	
Maricopa Co AZ SD #210	429,256	Aa2			West Covina CA	1,999,720	SP-1+		
Michigan St Evvion	105,225	Aa2	AA-	AA-	Wisconsin State	152,586	Aa2	AA	AA
					<b>TOTAL</b>	<b>27,270,719</b>			

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2012**

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The County also carried investments in registered warrants and the Washington State LGIP, which are unrated.

Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied and become an enforceable lien on January 1<sup>st</sup> of each year. Collection of taxes is authorized on February 15<sup>th</sup>, with installments due on April 30<sup>th</sup> and October 31<sup>st</sup>. On May 31<sup>st</sup> the assessed value of property is established for the following year's levy. Assessed value is considered to be 100 percent of market value.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. Revenue is recognized when the taxes are collected. Refunds of taxes are recorded as reductions of revenue when they are measurable and due to be issued. 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 \$1,000 of assessed valuation for general governmental services, subject to the following limitations:

- Washington State law in RCW 84.55.010 limits growth of regular property taxes to 1 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 1 percent due to re-valuation, the levy rate will be decreased.
- The Washington State Constitution limits the total regular property taxes to 1 percent of the assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.
- The County may voluntarily levy taxes below the legal limit. Special levies approved by the voters are not subject to the above limitations.

2012 Tax levy information is as follows:

	<b>Levy in Dollars Assessed Per</b>		
	<b>Thousand</b>	<b>Total Value</b>	<b>Levy</b>
2012			
County	1.5874	\$ 14,164,054,879	\$ 22,485,298
Medic 1 Services	0.3750	14,149,335,695	5,306,000
Roads	1.7556	7,072,346,522	12,416,908
Conservation Futures	0.0549	14,164,054,879	778,798

The County tax rate includes a levy for general governmental services and special revenue assessments. The County is authorized to levy taxes in unincorporated areas for road construction and maintenance, subject to the same limitations as the levy for general government services. The Conservation Futures tax rate is a non-voter approved excess levy for the purpose of acquiring land development rights for preservation purposes.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2012**

**B. Receivables**

Governmental funds report revenues as deferred if they are not available to liquidate liabilities of the current period or are not yet earned. Detail of deferred revenue balances as of December 31, 2012 is as follows:

	<b>Unavailable</b>	<b>Unearned</b>	<b>Total</b>
Property Taxes Receivable (General Fund)	\$ 1,117,278	-	\$ 1,117,278
Property Taxes Receivable (Road Fund)	454,081	-	\$ 454,081
Property Taxes Receivable (Other Government Funds)	351,872	-	\$ 351,872
Revenue Earned but Not yet Available	1,975,056		\$ 1,975,056
Revenue Received Prior to Meeting Eligibility Requirements		229,466	\$ 229,466
Total Deferred Revenue for Government Funds	<u>\$ 3,898,287</u>	<u>\$ 229,466</u>	<u>\$ 4,127,753</u>

**C. Interfund Receivables, Payables and Transfers**

Details of interfund payable/receivable balances of December 31, 2012 are as follows:

	<b>Due From Other funds</b>				
	<b>General</b>	<b>Other</b>		<b>Internal</b>	
<b>Due to Other funds</b>	<b>Fund</b>	<b>Government</b>	<b>County</b>	<b>Service</b>	<b>Total</b>
		<b>Funds</b>	<b>Road Fund</b>	<b>Funds</b>	
General Fund	\$ -	97,001	\$ -	\$ 2,033,946	\$ 2,130,947
Non-Major Governmental Funds	424,139	(7,590)	32,039	(36,095)	412,493
Internal Service	489,285	90	107,523	21,115	618,012
County Road Fund	807,873	330,788	-	902,962	2,041,623
Drainage Utility	40,241	-	58,830	2,447	101,518
Solid Waste	51,494	90	168,257	14,573	234,413
Total	<u>\$ 1,813,032</u>	<u>\$ 420,379</u>	<u>\$ 366,648</u>	<u>\$ 2,938,946</u>	<u>\$ 5,539,006</u>

These balances are the result of transactions involving the exchange of goods and services in the ordinary operations of the respective funds.

Interfund loans have been made to provide cash flows for the operations of the receiving funds. Details of the interfund loans are as follows:

<b>Borrowing Fund</b>	<b>Lending Fund</b>	<b>Balance</b>			<b>Balance</b>
		<b>1/1/2012</b>	<b>New Loans</b>	<b>Repayment</b>	<b>12/31/2012</b>
Unemployment Compensation	General Fund	\$ -	\$ 445,000	\$ 445,000	\$ -
Planning and Development	General Fund	300,000	150,000	450,000	-
Elections	General Fund	50,000	240,000	290,000	-
Water Improvement 210	Water Improvement 215	28,000			28,000
Water Improvement 215	Water Improvement 218	232,500			232,500
Water Improvement 216	Edison Clean Water	3,000			3,000
Facility Improvement	General Fund/Cap Fac	-	300,000	300,000	-
Total		<u>\$ 613,500</u>	<u>\$ 1,135,000</u>	<u>\$ 1,485,000</u>	<u>\$ 263,500</u>

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Interfund transfers represent subsidies and contributions provided to the receiving fund. Most transfers from the general fund are for the purposes of ordinary operations and debt service. Transfers out of non-major governmental funds are generally for debt service and capital project funding. Details of 2012 transfers are as follows:

Transferring Fund	Transfers In				Balance 12/31/2012
	General Fund	Drainage Utility	Internal Service	Non-Major Governmental	
General Fund			\$ 200,000	\$ 5,605,631	\$ 5,805,631
Solid Waste			57,320		57,320
Drainage Utility				10,000	10,000
County Roads			146,857	493,292	640,149
Non-Major	176,094	252,829		2,523,364	2,952,288
Total	\$ 176,094	\$ 252,829	\$ 404,177	\$ 8,632,287	\$ 9,465,388

**D. Capital Assets**

Summarized capital asset transactions for governmental activities as of December 31, 2012 are as follows:

		Beginning Balance Jan 1, 2012	Increases	Decreases	Ending Balance Dec 31, 2012
<b>Governmental Activities</b>					
Capital Assets, Non-depreciable					
	Land	\$ 157,191,239	\$ 493,541	\$ 266,337	\$ 157,418,443
	Development Rights	12,949,189	610,975	-	13,560,164
	Capital asset held for resale	-	-	-	-
	Construction in Progress	1,027,416	4,078,324	242,839	4,862,901
		171,167,844	5,182,840	509,176	175,841,508
Depreciable Capital Assets					
	Buildings	53,291,102	9,571,781	-	62,862,883
	Improvements	8,449,160	35,412	24,862	8,459,710
	Machinery and Equipment	19,585,966	4,184,902	1,188,319	22,582,549
	Infrastructure	325,956,445	2,056,482	4,265,729	323,747,198
		407,282,673	15,848,577	5,478,910	417,652,340
Less Accumulated Depreciation					
	Buildings	(20,755,552)	(4,214,456)	60,251	(24,909,757)
	Improvements	(4,387,788)	(300,427)	-	(4,688,215)
	Machinery and Equipment	(11,216,447)	(2,695,698)	846,552	(13,065,593)
	Infrastructure	(205,776,518)	(15,182,452)	2,776,443	(218,182,527)
		(242,136,305)	(22,393,033)	3,683,246	(260,846,092)
Total Net Depreciable Capital Assets		165,146,368	(6,544,456)	9,162,156	156,806,248
Total Net Capital Assets		\$ 336,314,212	\$ (1,361,616)	\$ 9,671,332	\$ 332,647,756

Depreciation expense by function for governmental activities is as follows:

General Governmental Services	\$ 1,289,134
Judicial	6,240
Public Safety	98,728
Utilities	13,460
Transportation	20,656,979
Natural & Economic Environment	4,071
Social Services	52,070
Culture and Recreation	272,350
Total governmental activities depreciation expense	<u>\$ 22,393,033</u>

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Summarized capital asset transactions for business type activities as of December 31, 2012 are as follows:

		<b>Beginning Balance</b>			<b>Ending Balance</b>
<b>Business - Type Activities</b>		<b>Jan 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Dec 31, 2012</b>
<b>Capital Assets, Non-depreciable</b>					
General Fund					
Land		\$ 793,059		\$ -	\$ 793,059
Construction in Progress		7,199,955	3,513,440	1,410,145	9,303,250
		7,993,014	3,513,440	1,410,145	10,096,309
<b>Depreciable Capital Assets</b>					
Buildings		1,397,338	-	183,061	1,214,277
Improvements		7,021,669	689,724	-	7,711,393
Machinery and Equipment		567,779	1,294,561	25,486	1,836,854
		8,986,785	1,984,285	208,547	10,762,524
<b>Less Accumulated Depreciation</b>					
Buildings		(1,020,713)	(29,999)	183,061	(867,652)
Improvements		(2,619,806)	(198,554)	-	(2,818,360)
Machinery and Equipment		(471,884)	(40,240)	25,486	(486,638)
		(4,112,403)	(268,793)	208,547	(4,172,649)
<b>Total Net Depreciable Capital Assets</b>		<b>4,874,382</b>	<b>1,715,492</b>	<b>417,094</b>	<b>6,589,875</b>
<b>Total Net Capital Assets</b>		<b>12,867,396</b>	<b>5,228,932</b>	<b>1,827,239</b>	<b>16,686,183</b>

Depreciation expense by function for business type activities is as follows:

Solid Waste		\$ 73,762
Drainage Utility		195,031
Total business type activities depreciation expense		<u>\$ 268,793</u>

## V. LONG TERM LIABILITIES

Skagit County's long-term liabilities include general obligation bonds and loans from the State of Washington. For the proprietary funds and on the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Government funds recognize bond premiums, discounts, and issuance costs in the period that they are incurred. Proceeds of debt are reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, including those withheld from proceeds, are reported as debt service expenditures.



**Skagit County, Washington**  
**Notes to the Financial Statements**  
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Details of general obligation bonds outstanding as of December 31, 2012 are as follows:

<b>Description</b>	<b>Balance</b>
In 1997 bonds were issued in the amount of \$875,000 to finance the purchase of an office building and the renovation of an existing building. Repayment has been financed by lease-purchase agreements with non-profit social service agencies. Principal payments are due annually on June 1, interest payments are due on June 1 and December 1. The interest rates range from 4.10% for 1999 maturities to 5.20% for maturities in 2013. The bonds are scheduled to mature June 1, 2013. Principal payments of \$75,000 and interest payments of \$6,091 were made in 2012.	\$ 80,000
In 2003 bonds were issued in the amount of \$5,340,000 to finance the acquisition and renovation of a building to house County offices, and to refund 1993 bonds. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 2.00% for 2003 maturities to 4.10% for maturities in 2017. Principal payments of \$175,000 and interest payments of \$45,668 were made in 2012.	990,000
In 2005 bonds were issued in the amount of \$5,475,000. \$160,000 of the proceeds were used to acquire land for county facilities. This portion of the issue is being serviced by general government revenues. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rate ranges from 3.00% for 2005 maturities to 3.75% for maturities in 2013. Principal of \$20,000 and interest payments of \$1,500 were made in 2012.	20,000
In 2006 bonds in the amount of \$7,610,000 were issued to acquire land, construct county facilities and for other capital purposes. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 3.75% on 2007 maturities to 4.0% for maturities in 2026. Principal payments of \$315,000 and interest payments of \$240,385 were made in 2012.	5,910,000
In 2007 bonds were issued in the amount of \$6,115,000 to refund a portion of the 2000 Bond issue. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 3.875% on 2007 maturities to 4.00% for maturities in 2022. Principal payments of \$390,000 and interest payments of \$203,728 were made in 2012.	4,825,000
<b>Total bonds payable at December 31, 2012 for governmental activities</b>	<b>\$ 11,825,000</b>
Proceeds in the amount of \$5,315,000 from the 2005 bond issue were used to refund the callable maturities of the 1996 bond issue. The proceeds of the 1996 issue were used for purposes relating to solid waste disposal and the 2005 refunding bonds are being serviced by the solid waste fund. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 3.00% on 2005 maturities to 3.75% for maturities in 2013. Principal payments of \$820,000 and interest payments of \$62,625 were made in 2012.	850,000
Proceeds in the amount of \$9,740,000 from the 2010 bond issue are for the purpose of improving the County's solid waste transfer station and other Capital improvements to County facilities. Principal payments are due annually on December 1, beginning in 2014. Interest payments are due on June 1 and December 1. The interest rates range from 1.9% in 2011 to 5.35% for maturities in 2030. There were no principal payments made in 2012. Interest paid in 2012 was \$410,245.	9,740,000
<b>Total bonds payable at December 31, 2012 for business-type activities</b>	<b>\$ 10,590,000</b>

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2012**

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Annual debt service requirements to maturity for the general obligations bonds are as follows:

Year Ending December 31	Government Activities			
	Government Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 1,015,000	\$ 459,385	\$ 850,000	\$ 442,120
2014	950,000	421,736	480,000	410,245
2015	980,000	385,301	495,000	401,125
2016	1,020,000	347,520	500,000	388,750
2017-2021	4,370,000	1,179,985	2,645,000	1,704,604
2022-2026	3,490,000	382,845	2,955,000	1,125,310
2027-2030	-	-	2,665,000	357,493
Totals	11,825,000	3,176,772	10,590,000	4,829,647

Refunded Bonds

In 2007 the County refunded a portion of the 2000 bond issue using proceeds from the 2007 bond issue. These proceeds were placed in an irrevocable trust to fund all future payments on the 2000 bonds. Accordingly, those 2000 bonds are considered to be defeased and the liability for them is not included in the 2012 financial statements. As of December 31, 2012 the balance of the defeased bonds outstanding is \$3,848,383.

Loans Payable

Details of loans payable as of December 31, 2012 is as follows:

Description	Balance
Payable to the State of Washington Department of Ecology Water Pollution Control Revolving Fund pursuant to a 1997 loan agreement. The term is 20 years and no interest is due. Principal payments of \$17,768 were made in 2012.	\$ 115,493
Payable to the State of Washington Department of Ecology Water Pollution Control Revolving Fund pursuant to a 2000 loan agreement. The term is 20 years and no interest is due. Principal payments of \$2,948 were made in 2012.	32,424
Payable to the State of Washington Community Economic Revitalization Board pursuant to a 2001 loan agreement. The term is 20 years and no interest is due. Principal payments of \$56,667 were made in 2012.	510,000
Payable to the State of Washington Department of Ecology pursuant to a 2005 loan agreement. The term is 20 years at 1.5% interest. Principal payments of \$72,904 and interest payments of \$18,725 were made in 2012.	1,189,667
Payable to the State of Washington Department of Ecology pursuant to a 2007 loan agreement. The interest rate is 2.6% and the term is 20 years. Principal payments of \$87,833 and interest payments of \$49,852 were made in 2012.	2,000,798
Total loans payable at December 31, 2012 for governmental activities	<u>\$ 3,848,383</u>

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2012**

Annual debt service requirements to maturity for loans payable are as follows:

<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 241,352	\$ 65,344
2014	244,652	62,043
2015	248,023	58,673
2016	251,465	55,231
2017-2021	1,267,146	221,912
2022-2026	1,028,259	124,202
2027-2031	567,485	29,068
<b>Totals</b>	<b>3,848,382</b>	<b>616,473</b>

**Debt Limitation**

State law places certain restrictions on the County's ability to issue general obligation bonds. Without an authorizing vote, limited tax general obligation bonds may be issued in an amount up to 1.5% of the assessed valuation of real property within the county. Unlimited tax general obligation bonds may be issued up to 2.5% of the assessed valuation with voter approval. No combination of limited and unlimited tax bonds may exceed 2.5% of the assessed valuation.

At December 31, 2012, the County's remaining capacity for non-voted debt was \$195,922,499. Additional debt capacity with an authorizing vote is \$141,640,549

**Changes in Long-Term Liabilities**

Details of changes in long term liabilities for the year ended December 31, 2012 is as follows:

	<b>Beginning Balance</b>	<b>New Issue</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Due Within One year</b>
<b>Governmental Activities:</b>					
Bonds Payable					
General Obligation Bonds	\$ 12,800,000		\$ 975,000	\$ 11,825,000	\$ 1,015,000
Add: Net Unamortized Discounts/Premiums	25,737		1,455	24,282	
Total Bonds Payable	12,825,737	-	976,455	11,849,282	1,015,000
Loans Payable	4,086,502	353,939	592,058	3,848,383	241,352
Note Payable	-			-	
Compensated Absences	2,791,796	410,130	51,155	3,150,771	3,150,771
OPEB Liability	325,380	352,391	446,554	231,217	
Environmental Liabilities	203,861	10,350	12,883	201,328	3,000
Total Long-Term Liabilities	\$ 20,233,276	\$ 1,126,810	\$ 2,079,104	\$ 19,280,981	\$ 4,410,123
<b>Business-Type Activities</b>					
Bonds Payable					
General Obligation Bonds	\$ 11,410,000		\$ 820,000	\$ 10,590,000	\$ 850,000
Discounts/Premiums	(36,778)	7,883	9,041	(37,936)	
Less: Unamortized Refunding	(46,036)	23,018		(23,018)	
Total Bonds Payable	11,327,186	30,901	829,041	10,529,046	850,000
Compensated Absences	92,205	4,295	4,067	92,433	92,433
Post Closure Landfill Costs	3,469,587	303,000	452,238	3,320,349	148,000
Environmental Liabilities	3,112,962	200,000	222,678	3,090,284	100,000
Total Long-Term Liabilities	\$ 18,001,941	\$ 538,196	\$ 1,508,024	\$ 17,032,112	\$ 1,190,433

**Skagit County, Washington**  
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**December 31, 2012**

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For governmental activities, the Unemployment Fund liquidates compensated absences as well as the OPEB obligation.

**VI. PENSION AND OTHER BENEFIT PLANS**

Substantially all Skagit County's full-time and qualifying part-time employees participate in a retirement plan administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communication Unit, P.O. Box 48380, Olympia WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, and No. 50, *Pension Disclosures, and Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of the legislative committees; community and technical colleges, college and university employees not participating in higher education requirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Plan 1 members are vested after the employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two 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 for 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment 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 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 two percent of the AFC for each year of service reduced by two 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 was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 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 may retire at the age of 65 with five years of service. The monthly benefit is two 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 30 or more years of service credit and are at least 55 years old can retire under one of the two provisions:

- With a 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.

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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 three 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 benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, 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 were earned after the age of 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 to retire with full benefits at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, 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 contributions and 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 two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one 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.

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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 option of joining the JMB Program enacted in 2006. Justices or judges in PERS Plan 1 and Plan 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 average financial compensation (AFC). Judges in PERS Plan 3 can elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who choose to participate in JBM will accrue credit at the higher multiplier beginning with the date of their election, 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 will 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.

Justices and judges who are newly elected or appointed to judicial service and choose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, are required to participate in the JBM Program.

Justices and judges who are newly elected or appointed to judicial service will return to a 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 1,320 participating employers in PERS. Details of PERS membership as of the latest actuarial valuation date of June 30, 2012 is as follows:

<b>Description</b>	<b>Members</b>
Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to but not yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

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Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rates for Plan 3 are developed by the Office of 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 Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2012 are as follows:

Rates for members not participating in JBM are as follows:			
Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%	7.21%	7.21**
Employee	6.00%	4.64%	***
* The employer rates include the employer administrative expense fee currently set at 0.16%.			
** Plan 3 defined benefit portion only.			
*** Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.			

Rates for members participating in JBM are as follows:			
Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%	7.21%	7.21**
Employee	12.26%	11.60%	7.50%***
* The employer rates include employer administrative expense fee currently set at 0.16%.			
** Plan 3 defined benefit portion only.			
*** Minimum rate.			

Both Skagit County and its employees have made the required contributions to the plan. Details of these contributions for the years ending December 31 are as follows:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$ 129,972	\$ 2,535,136	\$ 717,045
2011	129,365	2,535,136	683,829
2010	144,221	2,214,612	651,602



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

Plan Description

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being the exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants 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.

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 legislature appropriations.

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 Plan 1 members are vested after the completion 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:

<b>Service Term</b>	<b>Percent of Final Average Salary</b>
20 or more years	2.0%
More than 10 years but less than 20 years	1.5%
More than 5 years 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 (indexed to 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 the 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 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 duly 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.

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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 or 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 employee completes 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 are reduced 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 (indexed at the Consumer Price Index), capped at three 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 two 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 is three 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 two percent per year of service beyond five years. The first ten percent of the FAS is not subject to federal income tax.

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

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 receive 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 children may request service credit on behalf of the deceased member.

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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 to 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 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of June 30, 2011:

<b>Description</b>	<b>Members</b>
Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to but not yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Non-vested	3,113
Total	27,658

**Funding Policy**

Effective July 1, 2000, Plan 1 employers and employees 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. 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, 2012 are as follows:

<b>Contributor</b>	<b>LEOFF Plan 1</b>	<b>LEOFF Plan 2</b>
Employer*	0.16%	5.24%
Employee	0.00%	8.46%
* The employer rates include the employer administrative expense fee currently set at 0.16%		

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Both Skagit County and its employees made the required contributions to the plan. Skagit County contributions for the years ending December 31 are as follows:

Year	LEOFF Plan 1	LEOFF Plan 2
2012	-	\$ 524,366
2011	-	524,775
2010	-	562,206

**C. Public Safety Employees' Retirement System (PSERS) Plan 2**

Plan Description

The Legislature created PSERS in 2004 and the system 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. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

A "covered employer" is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Corrections departments of Washington State counties;
- Corrections departments of Washington State cities except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; OR
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; OR
- Function as a Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, 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

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months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 who retire prior to the age of 60 receive reduced benefits. If retirement is at 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 (indexed to the 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 two 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 receive 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 children may request service credit on behalf of the deceased member.

PSERS members may also purchase up to 24 consecutive months of service 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. There were 4,020 active non-vested plan members as of the latest actuarial valuation date of June 30, 2011.

<b>Description</b>	<b>Members</b>
Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to but not yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Non-vested	4,020
Total	4,203

**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

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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, 2012 were as follows:

<b>Contributor</b>	<b>PSERS Plan 2</b>
Employer*	8.87%
Employee	6.36%
* The employer rates include the employer administrative expense fee currently set at 0.16%	

Both Skagit County and its employees made the required contributions to the plan. Skagit County's contributions for the years ended December 31 were as follows:

<b>Year</b>	<b>PSERS Plan 2</b>
2012	\$ 274,348
2011	267,649
2010	209,243

**D. Other Post Employment Benefit Plans (OPEB)**

State law requires the County to pay medical and nursing care costs for LEOFF Plan 1 retirees. Authority for changes in benefits for the LEOFF Plan 1 resides with the Washington state law and the Employee Retirement Benefits Board (ERBB). Members of the ERBB are appointed by the Governor.

Effective for the County's 2008 reporting year, GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* requires other post employment benefits (OPEB) expenses to be accrued based on a computed annual required contribution (ARC). ARC represents the current period's service cost and the amount necessary to amortize the unfunded actuarial liability.

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. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF Plan 1 termination and mortality rates used in the June 30, 2007 actuarial valuation report issued by the Office of the Washington State Actuary (OSA). Healthcare costs and trends were determined by Milliman, Inc., actuarial consultants, and used by OSA in a statewide LEOFF Plan 1 medical study performed in 2007. The expected medical inflation trend starts at 9.0% in 2007 and decreases to 5.0% in 2015; it remains at 5.0% after 2015. The expected long-term care inflation trend is 4.5% for all years. 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 (AAL) was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purpose of this valuation. The medical inflation trend is the percentage that medical costs are expected to increase in future years. The alternative measurement used in the 2008, 2009 and 2010 financial statements was recalculated for the 2011 and 2012 financial statements, as authorized by GASB Statement No. 45. The actuarial valuations

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involve estimates of the value of reported amounts and assumptions of the probability of events far into the future and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The following table illustrates the components of the January 23, 2012 calculation:

		PVFB	AAL
Inactive:			
	Medical Expenses	2,300,530	2,300,530
	Long-Term Care	1,212,742	1,212,742
	<b>Total Inactive</b>	<b>3,513,272</b>	<b>3,513,272</b>
ARC			
	Normal Cost	-	
	UAAL Amortization	327,134	
<b>ARC</b>		<b>\$ 327,134</b>	
Annual OPEB Cost			
	ARC	327,134	
	NOO Interest	10,480	
	NOO Amortization	(21,686)	
<b>Annual OPEB Cost</b>		<b>315,928.00</b>	
NOO			
	Starting NOO	232,897	
	Annual OPEB Cost	315,929	
	Contributions	111,723	
<b>NOO</b>		<b>437,103</b>	

Annual OPEB costs of \$315,928 less expenses of \$84,712 resulted in a net 2012 OPEB obligation of \$231,217. As of December 31, 2012 there were no active members in the LEOFF 1 plan.

The actual expense constitutes 25.9% of the ARC. The County's actuarial accrued liability (AAL) of \$3,513,273 was unfunded as of December 31, 2012.

The following table illustrates prior year's alternative method OPEB calculation as well as benefits cost contributed and net pension obligation:

Year	Annual OPEB Cost	Ending Net OPEB Obligation	Percent of Annual OPEB Cost Contributed
2012	\$ 315,928	\$ 231,216	26.81%
2011	315,928	204,205	35.36%
2010	465,505	232,897	49.97%

Schedule of Funding Progress

As of January 23, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$3,513,273 and the actuarial value of the assets was zero percent resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$3,513,273.

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**VII. RISK MANAGEMENT**

**Liability Insurance**

Skagit County is one of twenty-seven member counties of the Washington Counties Risk Pool ("Pool"). Other members include: Adams, Benton, Chelan and Clallam, Clark, Columbia, Cowlitz, Douglas, Franklin, Garfield, Grays Harbor, Island, Jefferson, Kittitas, Lewis, Mason, Okanogan, Pacific, Pend Oreille, San Juan, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Kitsap, Klickitat and Whitman Counties are former Pool members, having terminated their memberships September 30<sup>th</sup> of 2010, 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) amongst the deficient year's membership. The Pool's reassessments receivable balance at December 31, 2012 was ZERO (\$0) as no contingent liabilities were known to exist at that time.

**Joint Self-Insurance Liability Program:** The Pool has provided its member counties occurrence-based, jointly self-insured and/or jointly purchased liability coverage since October 1, 1988 for 3<sup>rd</sup>-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, including public officials' errors and omissions. Total coverage limits have grown over time, from the \$1 million limit during the Pool's initial two months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million limit existing the past eight years. (Note: Additional limits of \$5 million were offered the past several years for acquisition as a member-by-member option.)

Except for the Pool's self insured retention (the greater of the member's deductible or \$100,000), the initial coverage of at least \$10 million has been fully reinsured since October 1994 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 for each occurrence. The remaining insurance (up to \$15 million) is acquired as "following form" excess insurance, also 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 Py2012 with the addition of 634 new claims (and lawsuits) raising the 3<sup>rd</sup>-party liability claims to-date total submitted by member counties to 18,616. Estimates of total incurred losses (payments made plus reserved estimates for *open* claims) increased \$5.4 million during the year to \$242.8 million. The Py2012 amount represents just 34% of the corresponding \$16.0M increase in Py2011, 30% of the \$17.8M in Py2010, and only 26% of the \$20.8M annual average during Py2007 – Py2009.

**Washington Counties Property Program ("WCPP"):** Since the Pool began offering the jointly-purchased, fully-insured property insurance coverage to its membership as an individual county option in October 2005, participation has grown by more than 50% and the total value of covered properties has nearly doubled. Twenty six member counties with covered properties totaling nearly \$2.67 billion participated in this program during Py2012.

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 /



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Earthquake) exposures. Occurrence deductibles, which the participating counties select annually and which the counties are solely responsible for paying, range between \$5,000 and \$50,000 for the AOP coverage.

Superior-rated commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. There were 7 claims filed during Py2012 by participating counties with incurred loss estimates totaling \$0.35 million. During the WCPP's first seven years as a WCRP optional insuring program, there have been 85 property claims filed with incurred-to-date losses totaling slightly more than \$11 million. With to-date premiums for this coverage totaling nearly \$16.5 million, the program's cumulative loss ratio is 0.667.

**Other Insurances:** Several member counties also use the Pool's producer (broker) for other insurance placements. Public officials bonds, crime (& fidelity), special events/concessionaires, Underground Storage Tanks and other environmental hazards insurance coverages are 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. Washington's pools operate under Washington's "pooling" laws, more specifically Chapters 48.62 RCW and 200.100 WAC. They are 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.

A new member may be asked to pay modest admittance fees to cover that member's share of the Pool's organizational expenses and costs to analyze its 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 its proportional shares of any unresolved, unreported, and in-process claims for the periods that former member was a signatory to the Interlocal Agreement.

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**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 Pool's Annual Meeting. The board of directors is responsible for determining the 3<sup>rd</sup>-party liability coverage to be offered (approving the insuring document or coverage form), the reinsurance program(s) to acquire and the excess insurance(s) to be jointly purchased or offered for optional purchase by the member counties, for approval of the Pool's annual operating budget(s) and work program(s), and for approval of the member deposit assessment formulas applicable to the ensuing policy year.

Regular oversight of the Pool's operations is furnished by an 11-person executive committee. The committee members are elected by the Pool's board of directors from its membership to staggered, 3-year terms. The committee meets several times throughout the year to approve all Pool disbursements and examine the Pool's financial health; to approve any case settlement exceeding the member's 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 6-person claims staff with more than ninety years of combined claims-handling experience handles or oversees the handling of the several hundred liability cases filed upon the Pool's member counties each year. This includes establishing reserves for covered events and estimating undiscounted future cash payments for losses and their related claims adjustment expenses. Other Pool staffers provide various member services, e.g. conducting risk assessments and compliance audits, coordinating numerous trainings, researching other coverages and marketing. Some address and support the organization's administrative needs.

Also, 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; independent claims auditing is performed by Strategic Claims Direction with special claims audits frequently performed by the Pool's commercial reinsurers / insurers; insurance producer (broker) and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; and coverage counsel is provided by J. William Ashbaugh of Hackett Beecher & Hart. These professionals are in addition to the many contracted and in-county attorneys assigned to defend Pool cases, as well as the examinations by and services from the State Risk Manager and the State Auditor.

**Financial Summary:** The following constitute the most significant highlights from the Pool's most recently completed Policy (Fiscal) Year (October 2011 through September 2012):

- Net Operating Income realized was \$1.8 million, a 132% year-over-year increase and nearly triple the annual average from the past ten years, 2002-11.
- Total Assets grew \$1.0 million (2%) to \$42.1 million. Current assets increased \$1.2 million (3%) while non-current assets decreased \$0.2 million (16%).
- Total Claims Reserves for the Pool's direct reserving exposures decreased 2% to \$14.7 million. This total includes: \$4.3 million for losses in the coverage layer retained by the Pool, down 23%; \$9.4

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million for the aggregated stop losses in the retained layers associated with the “corridor” program for automobile and general liabilities, up 10%; and \$1.0 million for unallocated loss adjustment expenses, up 17% from one year ago. *NOTE: The corridor program referenced is now six years old yet still not fully matured. Further, its occurrence coverage maximum was increased to \$1.0 million beginning with Py2010, up from the \$0.5 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 \$1.8 million to nearly \$12.9 million as of September 30, 2012. Of that total, \$4.8 million is classified as *Restricted Net Position* — \$0.8 million to satisfy the State’s solvency provisions (WAC 200.100.03001) plus \$4.0 million for the Pool’s Underwriting Policy requirements – and another \$1.0 million is held as *Capital Assets* (net of debt). The remaining \$7.1 million held as *Non-Restricted Net Position*, up from \$4.4 million one year before, is available for use as directed by the Pool’s Board of Directors.

The following schedule details the current year’s and the prior two year’s claims liability activity:

		Current Year		
Fiscal Year	Beginning Balance	Claims & Changes in Estimate	Claim Payments	Year End Balance
2012	\$ 3,014,000	\$ 112,086	\$ 355,205	\$ 2,770,881
2011	2,031,271	\$ 1,270,529	\$ 287,800	\$ 3,014,000
2010	1,630,114	556,366	155,209	2,031,271

### **Other Insurance**

Employee on-the-job injuries are covered by industrial insurance through the State of Washington Department of Labor & Industries (L&I). All employees and some volunteers, except LEOFF-1 members and ferry crewmembers, are covered to statutory limits. Industrial insurance (L&I) rates are occupation and experience based, with base premiums adjusted for individual entity claims experience. The experience modification multiplier was 1.1562 in 2010, 1.0811 in 2011, and .9971 in 2012.

Skagit County is self-insured for unemployment claims. These claims are processed by the Washington State Department of Employment Security and the county is billed for them on a quarterly basis. The County has established an Unemployment Compensation Fund which charges other County funds based on estimates of future claims, and pays the claims when they are billed. The Unemployment Compensation Fund had Net Position of \$169,036 at December 31, 2012.

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The County is self-insured for dental insurance claims. Washington Dental Services serves as the third party administrator and bills the County for claims paid. Administrative fees and charges paid to Washington Dental Service totaled \$77,351 for 2012. Dental claims activity for 2012 and the preceding two years are as follows:

		<b>Current Year</b>		
<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Claims &amp; Changes in Estimate</b>	<b>Claim Payments</b>	<b>Year End Balance</b>
2012	\$ 114,002	\$ 629,392	\$ 644,275	\$ 99,119
2011	112,846	761,169	760,013	114,002
2010	116,146	749,009	752,309	112,846

The County is self-insured for medical insurance coverage for eligible employees. The claims processing is administered by Trusteed Plans. The County's health benefits broker, Wells Fargo, recommends the premiums charged to County funds. These amounts are transferred to the Insurance Services Fund, which pays the amount billed by the claims processor. An insurance policy is in place to cover claims in excess of \$175,000 per claimant. Administrative fees and charges paid to Trusteed Plans totaled \$286,329 for 2012. Medical claims activity for 2012 and the preceding two years are as follows:

		<b>Current Year</b>		
<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Claims &amp; Changes in Estimate</b>	<b>Claim Payments</b>	<b>Year End Balance</b>
2012	\$ 1,286,903	\$ 7,138,440	\$ 7,301,964	\$ 1,123,379
2011	1,321,538	6,142,498	6,177,133	1,286,903
2010	1,366,754	6,298,165	6,343,381	1,321,538

#### **VIII. COMMITMENTS, CONTINGENCIES AND LITIGATION**

Amounts received or receivable from grantor agencies are subject to audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by a grantor is expected to be immaterial. As discussed in Note V, the County is contingently liable for repayment of refunded debt.

Skagit County is named as the defendant in various lawsuits. Although the outcome of these legal actions is not presently determinable, the County is of the opinion that present reserves are available to adequately cover potential settlements without adversely affecting the financial condition of the County.

On March 24, 2003, the Board of County Commissioners of Skagit County entered into a contingent loan agreement with the Skagit Regional Public Facilities District. The District has authorized the issuance and sale of limited sales tax obligation bonds in the amount of \$9,685,000. The County and the District entered into an Interlocal Agreement whereby the County agreed to lend to the District amounts sufficient, together with the sales tax and net operating revenues of the District, to pay all debt service on the bonds and any additional bonds. The aggregate principle amount of outstanding loans by the County is not to exceed \$10,000,000. As of December 31, 2012, there have been no loans made by the County to the Public Facilities District. In January of 2013, the County signed a new Interlocal agreement with the Public Facilities District. In February of 2013, the County issued \$8.6 million GO Refunding bonds to refund both the County's 2003 bond issue as well as the Public Facilities District's 2003 bond issue. The PFD's

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portion of the refunding bonds was \$7,985,000. The average interest rate received on the refinancing bonds, which pay principal and interest in 2013 through 2026, is 1.89%. The County will reduce the PFD's dedicated sales and use tax to cover the debt service of the PFD's portion of the refunded bonds. In the event that the PFD cannot cover the debt service for any given year, the County remains responsible for that debt, however; the debt is legally owed to the County by the PFD and secured by the Interlocal agreement.

**Leasing Commitments**

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2012 are as follows:

	<b>Rental Payments</b>
<b>Year</b>	<b>Due</b>
2013	\$ 135,881
2014	135,881
2015	122,613
2016	109,346
2017	21,785
Total	525,506

2012 rent expense for all operating leases, except those with terms of a month or less were all renewed.

**Construction**

At December 31, 2012, the County had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

	<b>Total</b>	<b>Expended to</b>	<b>Balance</b>
	<b>Contracts</b>	<b>12/31/2012</b>	<b>Unexpended</b>
<b>Governmental Activities</b>			
Clean Water Fund	\$ 1,956,252	\$ 868,577	\$ 1,087,675
Non-Major Government Funds	398,285	139,500	258,785
Road Fund	33,531,669	21,836,218	11,695,452

**Landfill Post Closure Costs**

State and federal laws and regulations require Skagit County to perform landfill maintenance and monitoring activities for a minimum of twenty to thirty years after closure. Accordingly, a long-term liability for post closure costs in the amount of \$3,320,349, of which \$148,000 is the current portion, is reported in the Solid Waste Fund at December 31, 2012.

Post closure care cost estimates are based on the minimum number of years of maintenance and monitoring required by law multiplied by the current annual expense incurred. The actual future cost may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

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**Liabilities for Pollution Remediation Obligations**

In accordance with Governmental Accounting Standards Board Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which became effective for the 2008 reporting year, liabilities for environmental cleanup obligations were recorded in the Solid Waste fund and the Equipment Rental and Revolving Fund.

*Whitmarsh Landfill*

The Solid Waste Fund recognized a liability of \$2,568,462, of which \$25,000 is the current portion, for the closed Whitmarsh Landfill site. In 2007, Skagit County received notice from the Department of Ecology that it was being named a Potentially Liable Party (PLP) under Washington's Model Toxics Control Act (MTCA), as a former operator of the landfill, for releases of leachate from the landfill to the environment. Skagit County implemented a preliminary investigation of the site in 2008 and entered into an Agreed Order with the Department of Ecology along with 3 other named parties. As of December 31, 2012, the County is in Phase II Remedial Investigation stage. Work remaining is Phase II Remedial Investigation, Feasibility Study, and a Cleanup Action Plan.

*Sinnes Road Landfill*

The Solid Waste Fund recognized a liability of \$521,822, of which \$75,000 is the current portion for the closed Sinnes Road Landfill site. The Skagit County Health Department facilitated an Agreed Order between the County and two other parties to address the releases of leachate from the landfill to the environment. As of December 31, 2012, the County is in the remedial action stage, with long-term monitoring and maintenance to be determined.

*Burlington Road Shop*

The Equipment Rental and Revolving Fund recognized a liability of \$201,328, of which \$3,000 is the current portion for costs relating to the monitoring and potential cleanup of soil and water contamination at the site of underground fuel storage tanks. Petroleum-impacted soil and groundwater were initially discovered in 1992 during the removal of three underground fuel storage tanks. Subsequent soil and groundwater investigations were conducted in 1993 by the County. Subsequently, four underground fuel storage tanks were removed. Annual groundwater monitoring using the existing well network was voluntarily implemented in 2003 and has continued to the present. Long-term groundwater monitoring is planned to continue until groundwater conditions improve.

*Alger Landfill*

The Department of Ecology has ranked the closed Alger Landfill under the Model Toxics Control Act State Hazard Assessment program. It scored a "3" on a scale of 1 to 5, with 1 being the highest relative priority. As of December 31, 2012, no further action has been taken either by the Department of Ecology or the County.

The County has received notice from the state Department of Ecology that the Panorama Landfill site will be ranked per the Washington Model Toxic Control Act. The County likely has some liability related to this landfill. Because it has not been ranked, the County has not estimated a liability as of 2012. The County's remediation activities to date have consisted of occasional monitoring of nearby wells and surface water.

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These liabilities were computed using the expected cash flow technique, with probabilities assigned to a range of potential costs. They are recorded net of possible insurance recoveries. The actual future costs may be higher due to inflation, changes in technology, changes in remedial plans, or changes in environmental laws and regulations.

**IX. PRIOR PERIOD ADJUSTMENTS**

**Park Improvement Fund** – A prior period adjustment of \$43,152 was the result of an analysis of the revenues in the fund. This was a correction of a prior year accrual.

**Drug Enforcement Fund** – A prior period adjustment of \$17,695 was the result of an analysis of the revenues in the fund. This was a correction of a prior year accrual.

**Planning and Development Fund** – A prior period adjustment of \$110,303 was the result of an analysis of the revenues in the fund. This was a correction of a prior year accrual.

**Conservation Futures** – A prior period adjustment of \$145,463 was the result of an analysis of the revenues in the fund. This was a correction of a prior year accrual.

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Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Agriculture Farm Service Agency	Conservation Reserve Program	10.069	CREP 2003 0054 Etach Creek		545.00		1
Department of Agriculture Farm Service Agency	Conservation Reserve Program	10.069	CREP 2003 0055 Day Creek		220.00		1
Department of Agriculture Farm Service Agency	Conservation Reserve Program	10.069	CREP 2005 0072 Martin Slough-Rockport		5,233.00		1
<b>Department of Agriculture Farm Service Agency</b>						<b>5,998.00</b>	
Department of Agriculture Food and Nutrition Service/Washington State Department of Health	Special Supplemental Nutrition Program for Women, Infants and Children - Breast Feeding	10.557	C16899(6)	2,936.00			1,4d
Department of Agriculture Food and Nutrition Service/Washington State Department of Health	Special Supplemental Nutrition Program for Women, Infants and Children - Local Support	10.557	C16899(1)	95,100.00			1,4d
<b>Department of Agriculture Food and Nutrition Service</b>						<b>98,036.00</b>	
Department of Agriculture Food and Nutrition Service/Washington State Department of Health	WIC Farmers' Market Nutrition Program (FMNP)	10.572	C16899(6)	135.00			1,4d
<b>Department of Agriculture Food and Nutrition Service</b>						<b>135.00</b>	
Department of Agriculture Food and Nutrition Program/Northwest Regional Council	Senior Farmers Market Nutrition Program	10.576	124009- NUTR(01)	4,884.00			1,2
<b>Department of Agriculture Food and Nutrition Program</b>						<b>4,884.00</b>	
Department of Agriculture Forest Service	Schools and Roads - Grants to States	10.665	Title I Forest Yield		295,642.74		1
Department of Agriculture Forest Service	Schools and Roads - Grants to States	10.665	Title III Forest Yield		48,698.97		1
<b>Department of Agriculture Forest Service</b>						<b>344,341.71</b>	
Department of Agriculture Natural Resources Conservation Service	Farm and Ranch Lands Protection Program	10.913	73-0546-11-003		196,250.00		1,2



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Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
<b>Department of Agriculture Natural Resources Conservation Service</b>						<b>196,250.00</b>	
Department of Commerce National Oceanic and Atmospheric Administration (NOAA)/State of Washington Department of Ecology	Coastal Zone Management Administrative Awards	11.419	G1200389	38,939.38			1
<b>Department of Commerce National Oceanic and Atmospheric Administration (NOAA)</b>						<b>38,939.38</b>	
Department of Housing and Urban Development Office of Community Planning and Development/State of Washington Department of Commerce	Community Development Block Grants/State's program and Non- Entitlement Grants in Hawaii	14.228	12-65400-017	25,894.15			1,5
<b>Department of Housing and Urban Development Office of Community Planning and Development</b>						<b>25,894.15</b>	
Department of Justice Drug Enforcement Administration/Washington State Patrol	Law Enforcement Assistance_Narcotics and Dangerous Drugs_Laboratory Analysis	16.001	Domestic Cannabis Eradication/Supp ression C110862FED	30,610.82			1,2
<b>Department of Justice Drug Enforcement Administration</b>						<b>30,610.82</b>	
Department of Justice Office of Juvenile Justice and Delinquency Prevention/WA St Dept of Social & Health Services	Juvenile Accountability Block Grant	16.523	JABG FFY10 0663-98417	3,169.13			1,2
<b>Department of Justice Office of Juvenile Justice and Delinquency Prevention</b>						<b>3,169.13</b>	
Department of Justice Office of Victims of Crime/State of Washington Department of Commerce	Crime Victim Assistance	16.575	SWV0000323-06	17,321.76			1,2
<b>Department of Justice Office of Victims of Crime</b>						<b>17,321.76</b>	

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
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Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Justice Violence Against Women Office/State of Washington Department of Commerce	ARRA-Violence Against Women Formula Grant	16.588	F11-31103-056	14,637.64			1,6
<b>Department of Justice Violence Against Women Office</b>						<b>14,637.64</b>	
Department of Justice Bureau of Justice Assistance/Washington State Department of Social & Health Services	Residential Substance Abuse Treatment for State Prisoners	16.593	1163-38470	103,840.99			1,2,4b
<b>Department of Justice Bureau of Justice Assistance</b>						<b>103,840.99</b>	
Department of Justice Bureau of Justice Assistance	State Criminal Alien Assistance Program	16.606	2011-H4555-WA- AP		28,881.00		1
<b>Department of Justice Bureau of Justice Assistance</b>						<b>28,881.00</b>	
Department of Justice Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607	www.vests.ojp.go v		2,645.67		1
<b>Department of Justice Bureau of Justice Assistance</b>						<b>2,645.67</b>	
Department of Justice Office of Community Oriented Policing Services/Washington Association of Sheriffs & Police Chiefs	Public Safety Partnership and Community Policing Grants	16.710	WSMI 10104	18,525.00			1,2
<b>Department of Justice Office of Community Oriented Policing Services</b>						<b>18,525.00</b>	
Department of Justice Bureau of Justice Assistance/State of Washington Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX- 0625	933.32			1,5
Department of Justice Bureau of Justice Assistance/State of Washington Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX- 2692	4,089.68			1,5
Department of Justice Bureau of Justice Assistance/State of Washington Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M11-34021-014	58,835.85			1

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Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Justice Bureau of Justice Assistance/State of Washington Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M12-34021-014	95,879.17			1
<b>Department of Justice Bureau of Justice Assistance</b>						<b>159,738.02</b>	
Department of Justice Bureau of Justice Assistance	Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2009-MO-BX-0034		93,055.54		1
<b>Department of Justice Bureau of Justice Assistance</b>						<b>93,055.54</b>	
Department of Justice	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	2009-SB-B9-0530		52.45		1,5,6
<b>Department of Justice</b>						<b>52.45</b>	
Department of Transportation Federal Highway Administration (FHWA)	ARRA-Highway Planning and Construction	20.205	Skagit River Bridge Modification & Interstate Highway LA6652		27,627.06		1,6
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Anacortes Ferry Dock Rehabilitation LA6843	15,245.67			1,2
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Guemes Island Ferry Dock Repair LA6651	74,352.06			1,2
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Anderson Road/LaVenture Road Extension LA6690	769,077.20			1,2
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Anderson/LaVenture Road Extension LA6689	3,495,749.60			1,2

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Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Francis Rd, Curve Realign LA6955	629,072.16			1
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	9 to 5 Corridor Safety Project LA7086	228,704.07			1
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Run-off Road & Intersection Safety Project LA7466	347,339.89			1
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Samish River Prairie Road Bridge Deck Repair LA7489	278,065.22			1,2
Department of Transportation Federal Highway Administration (FHWA)/Washington State Department of Transportation	Highway Planning and Construction	20.205	Cascade River Road 97950	300,000.00			1
Department of Transportation Federal Highway Administration (FHWA)						6,165,232.93	
Department of Transportation National Highway Traffic Safety Administration (NHTSA)/Washington Traffic Safety Commission	State and Community Highway Safety	20.600	Law Enforcement Liaison	473.03			1
Department of Transportation National Highway Traffic Safety Administration (NHTSA)/Washington Traffic Safety Commission	State and Community Highway Safety	20.600	CP12-03	8,936.45			1
<b>Department of Transportation National Highway Traffic Safety Administration (NHTSA)</b>						<b>9,409.48</b>	

SKAGIT COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Transportation National Highway Traffic Safety Administration (NHTSA)/Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Target Zero Corridor Project-DUI	5,459.74			1,2
<b>Department of Transportation National Highway Traffic Safety Administration (NHTSA)</b>						<b>5,459.74</b>	
Department of Transportation Pipeline and Hazardous Materials Safety Administration	Technical Assistance Grant	20.710	DTPH56-10-G-PHPT12		1,434.18		1,2
<b>Department of Transportation Pipeline and Hazardous Materials Safety Administration</b>						<b>1,434.18</b>	
Environmental Protection Agency Region 10	Puget Sound Watershed Management Assistance	66.120	PO00J09601		273,975.79		1,2,4a,5
Environmental Protection Agency Region 10	Puget Sound Watershed Management Assistance	66.120	PO-00J08201-3		111,992.40		1
<b>Environmental Protection Agency Region 10</b>						<b>385,968.19</b>	
Environmental Protection Agency Region 10/Washington State Department of Health	Puget Sound Action Agenda; Technical Investigations and Implementation Assistance Program	66.123	On-site Sewage Management NEP C16899(6)	59,022.94			1,4d
Environmental Protection Agency Region 10/Washington State Department of Health	Puget Sound Action Agenda; Technical Investigations and Implementation Assistance Program	66.123	Pollution ID and Correction (PIC) NEP C16899(6)	87,980.57			1,4d
Environmental Protection Agency Region 10/Washington State Department of Health	Puget Sound Action Agenda; Technical Investigations and Implementation Assistance Program	66.123	Livestock Mgmt Ag BMP's NEP C16899(6)	2,459.66			1,4d
Environmental Protection Agency Region 10/State of Washington Department of Commerce	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	12-63401-005	32,356.24			1
<b>Environmental Protection Agency Region 10</b>						<b>181,819.41</b>	

SKAGIT COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Environmental Protection Agency Office of Water	Targeted Watershed Grants	66.439	WS - 96082901-3		22,094.56		1,2
<b>Environmental Protection Agency Office of Water</b>						<b>22,094.56</b>	
Environmental Protection Agency Office of Water/State of Washington Department of Ecology	National Estuary Program	66.456	G1200389	15,143.08			1
<b>Environmental Protection Agency Office of Water</b>						<b>15,143.08</b>	
Environmental Protection Agency Office of Water/Washington State Department of Health	ARRA-Capitalization Grants for Drinking Water State Recovery Funds	66.468	Drinking Water Group A - TA C16899(4)	2,000.00			1,4d,6
Environmental Protection Agency Office of Water/Washington State Department of Health	ARRA-Capitalization Grants for Drinking Water State Recovery Funds	66.468	Drinking Waster Group A - Spatial Dataset C16899(4)	97.00			1,6
<b>Environmental Protection Agency Office of Water</b>						<b>2,097.00</b>	
Department of Energy	ARRA -Energy Efficiency & Conservation Block Grant Program (EECBG)	81.128	DE-SC0003098		126,302.02		1,6
Department of Energy/Washington State Department of Commerce	ARRA -Energy Efficiency & Conservation Block Grant Program (EECBG)	81.128	F10-52110-065	30,309.46			1,5,6
<b>Department of Energy</b>						<b>156,611.48</b>	
U.S. Election Assistance Commission/State of Washington, Office of Secretary of State, Elections Division	Help America Vote Act Requirements Payments	90.401	OSOS No. G-2855	3,408.64			1
<b>U.S. Election Assistance Commission</b>						<b>3,408.64</b>	
Department of Health and Human Services Administration for Community Living/Northwest Regional Council	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	Nutrition Incentive Program (Fee for Services)124009-NUTR(01)	84,715.00			1,2
Department of Health and Human Services Administration for Community Living/Northwest Regional Council	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	Congregate & Home Delivered Meals 124009-NUTR(01)	186,147.00			1,2

SKAGIT COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
<b>Department of Health and Human Services Administration for Community Living</b>						<b>270,862.00</b>	
Department of Health and Human Services Centers for Disease Control and Prevention/Washington State Department of Health	Public Health Emergency Preparedness	93.069	PHEPR LHJ C16899(4)	30,968.71			1,4d
<b>Department of Health and Human Services Centers for Disease Control and Prevention</b>						<b>30,968.71</b>	
Department of Health and Human Services Food and Drug Administration/Washington State Department of Health	Food and Drug Administration_Research	93.103	Retail Food Program Self-Assessment Used to Identify and Establish Regulatory Program	2,500.00			1
<b>Department of Health and Human Services Food and Drug Administration</b>						<b>2,500.00</b>	
Department of Health and Human Services Centers for Disease Control and Prevention	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	C16899(4)		2,761.05		1,4d
<b>Department of Health and Human Services Centers for Disease Control and Prevention</b>						<b>2,761.05</b>	
Department of Health and Human Services Substance Abuse and Mental Health Services Administration/State of Washington Dept of Social & Health Services-Recovery Support	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1163-24773	54,193.55			1
<b>Department of Health and Human Services Substance Abuse and Mental Health Services Administration</b>						<b>54,193.55</b>	
Department of Health and Human Services Centers for Disease Control and Prevention/Washington State Department of Health	Immunization Cooperative Agreements	93.268	AFIX C16889(6)	22,303.00			1,4d

SKAGIT COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Health and Human Services Centers for Disease Control and Prevention/Washington State Department of Health	Immunization Cooperative Agreements	93.268	VFC Ops 16889(6)	9,943.00			1,4d
Department of Health and Human Services Centers for Disease Control and Prevention/Washington State Department of Health	Immunization Cooperative Agreements	93.268	Ops C16899(6)	5,948.00			1,4d
Department of Health and Human Services Centers for Disease Control and Prevention/Washington State Department of Health	Immunization Cooperative Agreements	93.268	Vaccine in Lieu of Cash C16899(6)	127,280.96			1,3,7
Department of Health and Human Services Centers for Disease Control and Prevention/Washington State Department of Health	Immunization Cooperative Agreements	93.268	Program Income C16899(6)	15,659.23			1,7
<b>Department of Health and Human Services Centers for Disease Control and Prevention</b>						<b>181,134.19</b>	
Department of Health and Human Services Health Resources and Services Administration/Thrive by 5 Washington	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	n/a	9,143.66			1,4b
<b>Department of Health and Human Services Health Resources and Services Administration</b>						<b>9,143.66</b>	
Department of Health and Human Services Administration for Children and Families/Washington State Dept of Social & Health Services	Child Support Enforcement	93.563	75-1501-0-1- 609/2110-80608	144,912.00			1,4c
Department of Health and Human Services Administration for Children and Families/Washington State Dept of Social & Health Services	Child Support Enforcement	93.563	75-1501-0-1- 609/2110-80608	443,858.00			1,4d
Department of Health and Human Services Administration for Children and Families/Washington State Dept of Social & Health Services	Child Support Enforcement	93.563	0763-15102-01	19,686.00			1,2



SKAGIT COUNTY, WASHINGTON  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2012

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
<b>Department of Health and Human Services Administration for Children and Families</b>						<b>608,456.00</b>	
Department of Health and Human Services Administration for Children and Families/Washington State Department of Health	Child Care Development Block Grant	93.575		7,768.36			1,4e
Department of Health and Human Services Administration for Children and Families/Washington State Department of Health	Child Care Development Block Grant	93.575		5,608.65			1,4e
<b>Department of Health and Human Services Administration for Children and Families</b>						<b>13,377.01</b>	
Department of Health and Human Service Centers for Medicare and Medicaid Services	Medical Assistance Program	93.778	Medical Admin Match 1163- 35474		87,427.79		1,2
Department of Health and Human Service Centers for Medicare and Medicaid Services	Medical Assistance Program	93.778			76,595.19		1,2
<b>Department of Health and Human Service Centers for Medicare and Medicaid Services</b>						<b>164,022.98</b>	
Department of Health and Human Services Substance Abuse and Mental Health Services Administration/North Sound Mental Health Administration	Block Grants for Community Mental Health Services	93.958	County MHBG- 11-12	58,421.77			1,2,5
<b>Department of Health and Human Services Substance Abuse and Mental Health Services Administration</b>						<b>58,421.77</b>	
Department of Health and Human Services Substance Abuse and Mental Health Services Administration/Washington State Dept of Social & Health Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27323	112,586.40			1,2

SKAGIT COUNTY, WASHINGTON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Health and Human Services Substance Abuse and Mental Health Services Administration/Washington State Dept of Social & Health Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27323	61,011.46			1
<b>Department of Health and Human Services Substance Abuse and Mental Health Services Administration</b>						<b>173,597.86</b>	
Department of Health and Human Services Health Resources and Services Administration/Washington State Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	MCHBG MCH Concon C16899(6)	122,259.00			1,4d
<b>Department of Health and Human Services Health Resources and Services Administration</b>						<b>122,259.00</b>	
Executive Office of the President/United General Hospital	High Intensity Drug Trafficking Area (HIDTA)	95.001	n/a	843.72			1
<b>Executive Office of the President</b>						<b>843.72</b>	
Department of Homeland Security/Washington State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	n/a	16,628.57			1
Department of Homeland Security/Washington State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	n/a	15,844.64			1
<b>Department of Homeland Security</b>						<b>32,473.21</b>	
Department of Homeland Security/Washington State Military Department	Disaster Grants-Public Assistance(Presidentially Declared Disasters)	97.036	D09-095	366,568.65			1,2
<b>Department of Homeland Security</b>						<b>366,568.65</b>	
Department of Homeland Security/Washington State Military Department	Hazard Mitigation Grant	97.039	E11-133	132,542.22			1,2
<b>Department of Homeland Security</b>						<b>132,542.22</b>	
Department of Homeland Security/Washington State Military Department-Snohomish County	Emergency Management Performance Grants	97.042	E12-060	43,280.00			1,2

SKAGIT COUNTY, WASHINGTON  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2012

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot Note Ref
				From Pass - Through Awards	From Direct Awards	Total	
Department of Homeland Security/Washington State Military Department- Snohomish County	Emergency Management Performance Grants	97.042	E12-360	43,375.00			1,2
<b>Department of Homeland Security</b>						<b>86,655.00</b>	
Department of Homeland Security/Marine Exchange of Puget Sound	Port Security Grant Program	97.056	2011-PU-T0- K033-22	289,587.30			1
Department of Homeland Security/Marine Exchange of Puget Sound	Port Security Grant Program	97.056	2009-PU-T9- K044-67	400,488.75			1,2
<b>Department of Homeland Security</b>						<b>690,076.05</b>	
Department of Homeland Security/Washington State Military Department- Snohomish County	Homeland Security Grant Program	97.067	K1032-CCP-11	269.23			1
Department of Homeland Security/Washington State Military Department- Snohomish County	Homeland Security Grant Program	97.067	E11-093	125,848.66			1
Department of Homeland Security/Washington State Military Department- Snohomish County	Homeland Security Grant Program	97.067	K855-CCP	2,162.04			1
Department of Homeland Security/Washington State Military Department- Snohomish County	Homeland Security Grant Program	97.067	E10-206	51,986.00			1
<b>Department of Homeland Security</b>						<b>180,265.93</b>	
<b>FEDERAL AWARD TOTAL</b>						<b>\$11,316,757.51</b>	

SKAGIT COUNTY, WASHINGTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the year ended December 31, 2012**

**NOTE 1 – BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as Skagit County's financial statements. Skagit County, in compliance with generally accepted accounting practices, uses modified accrual accounting for government funds and accrual accounting for proprietary funds.

**NOTE 2 – PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including Skagit County's portion, are more than shown.

**NOTE 3 – NONCASH AWARDS - VACCINATIONS**

The amount of vaccines reported on the schedule is the value of vaccine received by Skagit County during 2012 and priced as prescribed by the Department of Health.

**NOTE 4 – INDIRECT COST RATE**

The amount expended includes a percentage claimed as an indirect cost recovery using an approved indirect cost rate. These rates are as shown below:

(a) 5.96% (b) 10.00%, (c) 13.97%, (d) 15.28%, (e) 25.00%, (d) 43.50%

**NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENT**

Included in the total amount expended for this program are dollars passed through to a sub recipient that administered its own project.

**NOTE 6 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009**

Expenditures for this program were funded by ARRA

**NOTE 7 – PROGRAM INCOME**

The amount reported is net of \$142,940.19 received as program income.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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**  
**Chief of Staff**  
**Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
**Barb Hinton**  
**Thomas Shapley**  
**Mike Murphy**  
**Mary Leider**  
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