



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Island County

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

Published September 28, 2015

Report No. 1015234





Washington State Auditor's Office

September 28, 2015

Board of Commissioners
Island County
Coupeville, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

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FEDERAL SUMMARY

Island County January 1, 2014 through December 31, 2014

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

Financial Statements

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

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the County's compliance with requirements applicable to its major federal program.

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 was a major program during the period under audit:

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

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

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

STATUS OF PRIOR AUDIT FINDINGS

Island County January 1, 2014 through December 31, 2014

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

Audit Period: January 1, 2013 through December 31, 2013	Report Ref. No: 1012716	Finding Ref. No: 1
Finding Caption: The County should improve its internal controls over financial reporting to ensure accurate reporting		
Background: Significant deficiencies in internal controls over financial reporting were identified. This was due to the County experiencing turnover in the positions primarily responsible for the creation of the financial statements and not dedicating the necessary time, resources and oversight to ensure accurate financial reporting		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input checked="" type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> No Corrective Action Taken </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>Island County continues to experience an extremely high turnover in personnel; while striving to develop financial reports that are both transparent and accurate. Island County is committed to ongoing quality improvement, including staff training and seeking financial guidance to ensure accurate and timely preparation and review of the financial statements.</i> <i>All the 2013 reporting audit findings were fully corrected before the 2013 Final Financial Statements were issued.</i> <ul style="list-style-type: none"> • <i>The Landfill post closure expense was corrected before the 2013 Final Financial Statements were issued.</i> • <i>The Net Position Invested in Capital Assets was corrected before the 2013 Final Financial Statements were issued.</i> • <i>The County Road Restricted Fund Balance was corrected before the 2013 Final Financial Statements were issued.</i> 		

- *The Fiduciary custodial amount was corrected before the 2013 Final Financial Statements were issued.*

No instances of noncompliance were identified by the State Auditors that could have a direct and material effect on the determination of 2013 Financial Statement amounts.

There are no uncorrected misstatements in the 2013 Audited Financial Statements.

**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**

**Island County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Island County
Coupeville, 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, each major fund and the aggregate remaining fund information of Island County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 21, 2015.

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.

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.



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

September 21, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Island County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Island County
Coupeville, Washington

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

We have audited the compliance of Island County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. 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, 2014.

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.



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

September 21, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Island County January 1, 2014 through December 31, 2014

Board of Commissioners
Island County
Coupeville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Island County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, each major fund and the aggregate remaining fund information of Island County, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 17 through 32, budgetary comparison information and information on postemployment benefits other than pensions on pages 78 through 80 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 September 21, 2015 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.



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

September 21, 2015

FINANCIAL SECTION

Island County January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –
2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2014

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – 2014

Other Postemployment Benefits – LEOFF 1 Retirement Benefits – 2014

Notes to Required Supplementary Information – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Island County's Financial Statements presents a narrative overview and analysis of the County's financial activities for the calendar year ending December 31, 2014. We encourage readers to consider the information presented here in conjunction with the additional information contained in the County's Financial Statements, and the related notes.

FINANCIAL HIGHLIGHTS

The global financial crisis has affected every corner of the world, and over the past decade the U. S. economy has suffered the largest economic downturn since the Great Depression. Island County has not been shielded from this crisis. As a result, the County has experienced declining revenues in the recent past, but economic growth over the last year shows a very modest but slow recovery.

Island County has been faced with significant financial challenges in its quest for financial sustainability. The County Commissioners have taken a proactive approach implementing drastic cost saving measures to streamline operations while maintaining service levels within the Community. The number one priority is to be efficient and effective in delivering County services to the citizens of Island County. Over the last several years, staff has made compensation concessions, including furloughs, benefit reductions, salary freezes and staffing levels were significantly reduced and administration was streamlined.

The Commissioners efforts are evident in this year's financial highlights. Fund Balances are increasing, and the County's Net Position is gaining, all of which positions the County to address a multitude of unfunded liabilities and capital needs. However, despite current year gains, revenues have not increased significantly, which is an indication that the County should plan conservatively. Strategic financial planning continues as the County's financial position improves, ensuring financial sustainability for Island County in the years to come.

- The County's cumulative Governmental Fund Balances increased by \$5.6 million (13.3%) to \$48.1 million compared to \$42.4 million for the prior year.
- The County's total Net Position on December 31, 2014, was \$171.5 million compared to \$162.9 million on December 31, 2013. This represents an overall increase of \$8.6 million (5.3%) and reflects an increase of \$8.1 million in Governmental Activities and an increase of \$574 thousand in Business-type Activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of three components: (1) Government-wide Financial Statements; (2) Fund Financial Statements; and (3) Notes to the Basic Financial Statements.

The Government-wide Financial Statements provide a long-term view of all the County's activities, including all the capital assets and long-term liabilities.

The Fund Financial Statements report the County's operations in detail and the focus is primarily on the short-term activities of the County's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues, expenditures, fund balance, and exclude capital assets, and long-term liabilities.

The Notes to the Basic Financial Statements provide more details to the specific components of the County's operations.

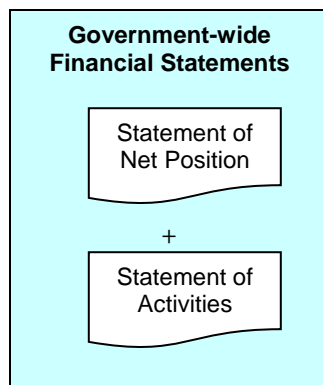
The diagram below outlines the major features of both the Government-wide and Fund Financial Statements.

	Government-wide Financial Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Entity	The day to day operating activities of the County for Governmental Services	The day to day operating activities of the County, for Business-type enterprises
Basis of Accounting	Accrual	Modified Accrual	Accrual
Accounting Method	All Revenues and Expenses are recorded, regardless of when the Cash transactions occur	Revenue is recorded when Cash is received, Expenditures are recorded when services or supplies have been received and the liability is due and payable	All Revenues and Expenses are recorded, regardless of when the Cash transactions occur
Measurement Focus	All Economic Resources	Current Financial Resources	All Economic Resources
Type of Asset and Liability Information	All Assets, Capital, Short and Long-term Liabilities	Current Assets and Liabilities due during the year or soon thereafter	All Assets, Capital, Short and Long-term Liabilities

Government-wide Financial Statements

The Government-wide Financial Statements consist of the following two financial statements:

1) Statement of Net Position; and 2) Statement of Activities. Both are designed to provide readers a broad overview of the County's financial activities and position, in a manner similar to the financial statements for a private-sector company.



The **Statement of Net Position** presents information on all of the County's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of an improving or deteriorating financial position.

The **Statement of Activities** presents information on the changes to Net Position that occurred during the reporting period. All changes to Net Position are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for items that may only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes, and expenses pertaining to earned but unused vacation and sick leave.

Both of the Government-wide Financial Statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*Business-type Activities*). The *Governmental Activities* of the County include General Government, Public Safety, Utilities and Environment, Transportation, Economic Environment, Mental and Physical Health, Culture and Recreation.

Fund Financial Statements

The Fund Financial Statements are designed to report information about groups of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives in accordance with special regulations, restrictions, or limitations. A fund is a separate accounting entity with a self-balancing set of accounts. The County, like other State and Local Governments, utilizes fund accounting to ensure and demonstrate finance related legal compliance. All of the funds within the County can be divided into the following three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Fund

A separate accounting entity with a self-balancing set of accounts

Fund Categories

Governmental Funds

Proprietary Funds

Fiduciary Funds

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as Governmental Activities in the Government-wide Financial Statements. Most of the County's basic services are reported in Governmental Funds. However, unlike the Government-wide Financial Statements, the Governmental Fund Financial Statements focus on the near-term inflow and outflows of resources, as well as on the balances of resources available at the end of the calendar year. This information may be useful in evaluating the County's near-term financing requirements.

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance, provide detailed information on Major Funds. The concept and the determination of Major Funds were established by criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, (GASB 34)" and represent the major activities of the County for the year. Major Funds include: the General Fund, County Road and the Solid Waste Fund. Major Funds are presented individually, while the activities of Non-Major Funds are presented in summary. Major Funds may change from year to year as a result of changes in the County's activities.

The focus of the Governmental Fund Financial Statements is narrower than that of the Government-wide Financial Statements; therefore it is useful to compare the information presented for Governmental Funds with similar information presented for Governmental Activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities.

The County adopts an annual appropriated budget, and a budgetary comparison schedule has been provided to demonstrate compliance with the budget.

Proprietary Funds

Proprietary Funds are generally used to account for services for which the County charges customers, or internal departments or agencies of the County. The County maintains two types of Proprietary Funds: Enterprise Funds and Internal Service Funds

Enterprise Funds

Enterprise Funds are utilized to report the same functions presented as Business-type Activities in the Government-wide Financial Statements. Enterprise Funds are supported by fees paid by users based on the amount of service received. The County utilizes Enterprise Funds for the following:

Solid Waste Management	To account for the administration, operation, capital improvements and debt service of the County Solid Waste Facilities
------------------------	--

Park Facility Management	To account for the administration, operation, maintenance and capital improvements of County owned parks and habitat conservation areas.
--------------------------	--

Internal Service Funds

Internal Service Funds are utilized to account for the financing of services and supplies provided by one department or agency, to other departments or agencies of the County on a cost-reimbursement basis. These services predominantly benefit governmental rather than Business-type functions; therefore they are included within the Governmental Activities

in the Government-wide Financial Statements. The Internal Service Funds are combined into a single, aggregated presentation, in the Proprietary Fund Financial Statements. The County utilizes Internal Service Funds for the following:

Equipment Rental / Revolving Fund	To account for the operation, maintenance and inventory of equipment and road construction materials.
Insurance Reserve	To account for the resources, claims, and payment of Insurance premiums
Motor Pool Fund	To account for purchase, maintenance, and tracking of County owned vehicles.

Fiduciary Funds

Fiduciary Funds are generally used to account for financial resources held for the benefit of other governments or parties. The County holds these funds in a custodial capacity or trustee. Fiduciary funds are not reflected in the Government-wide Financial Statements because the resources of the funds are not available to support the County's governmental activities.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provides additional information that is essential to fully understand the data presented in the Government-wide and Fund Financial statements.

Required Supplemental Information

This section contains the Budget versus Actual Statements for the General Fund and the County Road Fund.

Other Information

In addition to the Financial Statements and accompanying notes, this section presents schedules for Non-Major Governmental Funds, Special Revenue Funds, Debt Service Funds, and the Internal Service Funds.

GOVERNMENT - WIDE FINANCIAL ANALYSIS

Analysis of Net Position

As noted earlier, Net Position may serve over time as a useful indicator of the County's financial position.

As shown on the next table, the County's Net Position was \$171.5 million on December 31, 2014, compared to the prior year of \$162.9 on December 31, 2013. This represents a 5.3% increase. Net Position increased by approximately \$8.1 million in governmental activities; while those from business-type activities increased by \$ 577 thousand.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET POSITION

December 31, 2014

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and Other Assets	57,389,843	53,563,677	7,194,767	6,692,686	64,584,610	60,256,363
Capital Assets	120,586,961	117,210,679	4,473,398	4,746,871	125,060,359	121,957,550
TOTAL ASSETS	177,976,804	170,774,356	11,668,165	11,439,557	189,644,969	182,213,913
LIABILITIES						
Other Liabilities	2,556,246	3,290,935	201,189	371,732	2,757,435	3,662,667
Non-Current Liabilities	13,592,757	13,756,220	1,713,598	1,888,526	15,306,355	15,644,746
TOTAL LIABILITIES	16,149,003	17,047,155	1,914,787	2,260,258	18,063,790	19,307,413
NET POSITION						
Investment in Capital Assets	113,306,466	109,120,186	4,473,398	4,746,871	117,779,864	113,867,057
Restricted	40,924,015	34,339,589			40,924,015	34,339,589
Unrestricted	7,597,320	10,267,426	5,279,980	4,432,428	12,877,300	14,699,854
TOTAL NET POSITION	161,827,801	153,727,201	9,753,378	9,179,299	171,581,179	162,906,500

The largest portion of the County's net position reflects the \$117.7 million (68.6%) investment in capital assets (e.g. land, buildings, and equipment); less any related outstanding debt used to acquire those assets. This is an increase of \$3.91 million over the prior year end balance of \$113.8 million and reflects the property acquisition and land donation of \$ 691 thousand to be developed as Robinson Park. The County utilizes capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although, the County's investment in capital assets is reported net of related debt, it should be noted the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be liquidated to pay those liabilities.

The restricted portion of Net Position is \$40.9 million (23.8%) and represents resources that are subject to external restrictions as to how they may be utilized. On December 31, 2014, the County had positive balances in all the categories used to calculate Net Position for both the Governmental and Business-type Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

CHANGE IN NET POSITION

December 31, 2014

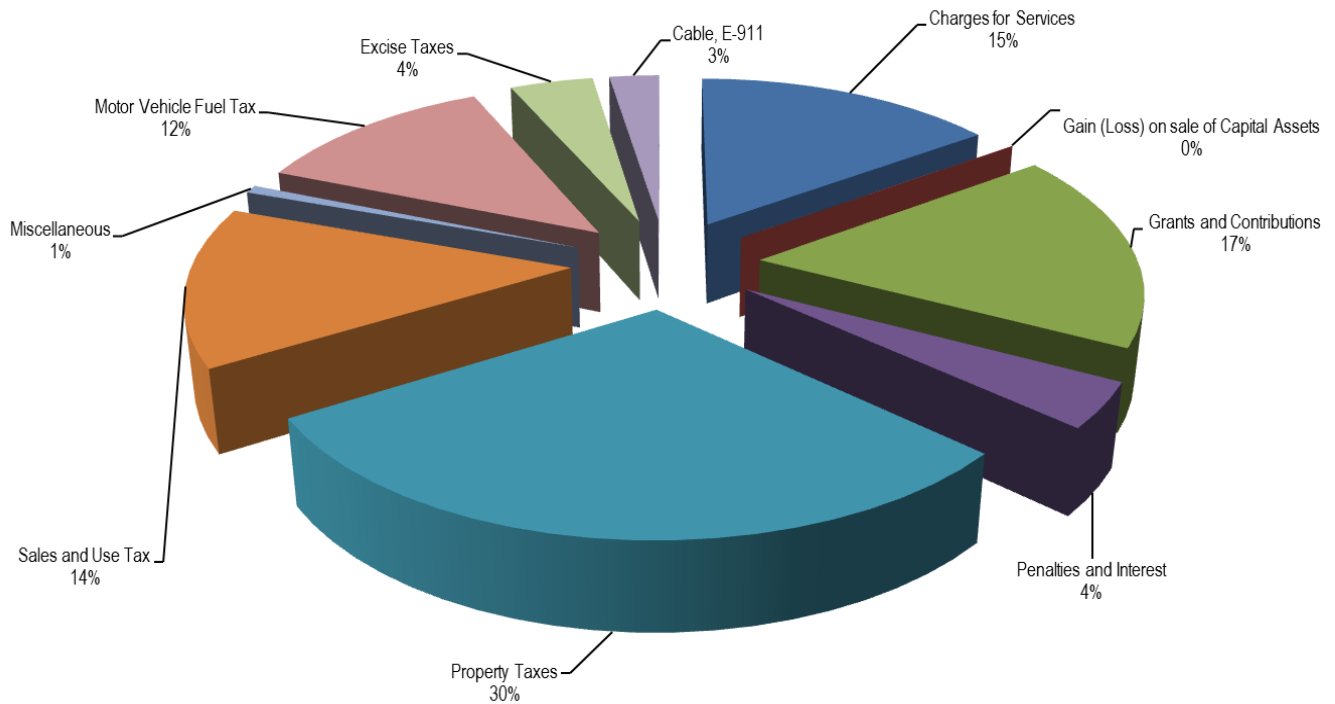
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
<i>Program Revenue</i>						
Charges for Services	8,496,845	7,714,499	6,220,728	6,039,386	14,717,573	13,753,885
Operating Grants & Contributions	8,085,333	9,827,862	43,936	215,374	8,129,269	10,043,236
Capital Grants & Contributions	1,728,272	3,321,182			1,728,272	3,321,182
Total Program Revenue	18,310,450	20,863,543	6,264,664	6,254,760	24,575,114	27,118,303
<i>General Revenue</i>						
Property Taxes	16,753,843	16,842,686			16,753,843	16,842,686
Sales / Use Taxes	7,873,945	7,371,812			7,873,945	7,371,812
MVFT / Excise	9,210,027	8,515,058			9,210,027	8,515,058
Penalties and Interest	2,222,519	852,480	2,986	3,918	2,225,505	856,398
Other	1,820,190	1,694,807	16,814		1,837,004	1,694,807
Total General Revenue	37,880,524	35,276,843	19,800	3,918	37,900,324	35,280,761
TOTAL REVENUES	56,190,974	56,140,386	6,284,464	6,258,678	62,475,438	62,399,064
EXPENSES						
General Government	8,884,386	8,839,028			8,884,386	8,839,028
Judicial	3,642,174	3,138,358			3,642,174	3,138,358
Public Safety	12,027,526	10,819,763			12,027,526	10,819,763
Physical Environment	2,208,530	950,643	5,288,750	4,655,419	7,497,280	5,606,062
Transportation	12,006,258	14,053,993			12,006,258	14,053,993
Health and Human Services	5,078,224	4,944,746			5,078,224	4,944,746
Economic Environment	3,031,148	3,786,454			3,031,148	3,786,454
Culture and Recreation	1,201,722	1,823,209	55,852	54,531	1,257,574	1,877,740
Interest on Long-Term Debt	376,189	411,508			376,189	411,508
TOTAL EXPENSES	48,456,157	48,767,702	5,344,602	4,709,950	53,800,759	53,477,652
Excess Before Transfers	7,734,817	7,372,684	939,862	1,548,728	8,674,679	8,921,412
Transfers In (Out)	365,783	316,383	(365,783)	(316,383)		
CHANGE IN NET POSITION	8,100,600	7,689,067	574,079	1,232,345	8,674,679	8,921,412
Net Position, January 1,	153,727,201	146,038,134	9,179,299	7,946,954	162,906,500	153,985,088
NET POSITION, DECEMBER 31,	161,827,801	153,727,201	9,753,378	9,179,299	171,581,179	162,906,500

Analysis of the Changes in Net Position

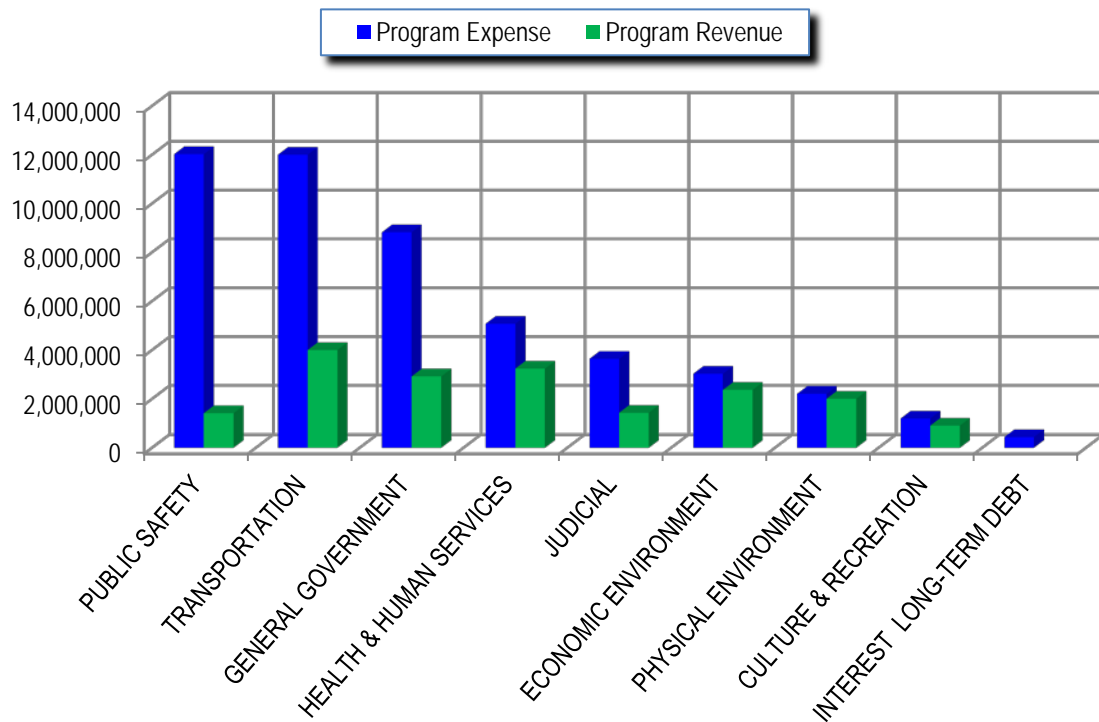
As shown on the table above revenue increased overall by \$ 76 thousand (0.1%) and expenses increased overall by \$ 323 thousand (0.6%).

The next charts illustrate the County's Governmental Revenues by Source and Governmental Expenses and Revenues by Program.

**Governmental Activities
REVENUES BY SOURCE**



**Governmental Activities
PROGRAM EXPENSES AND PROGRAM REVENUES**



Governmental Activities increased the County's total Net Position by \$8.1 million to \$161.8 million during 2014, compared to the increase of \$7.6 million during 2013. Key factors contributing to the variance from the prior year are listed below:

Overall, Governmental Activity revenue increased by \$ 51 thousand in the following categories:

Revenue Increases:

- \$ 1.3 million in Penalties and Interest
- \$ 782 thousand in Charges for Services
- \$ 502 thousand in Sales/Use Tax revenue
- \$ 694 thousand in Motor Vehicle Fuel and Excise Tax
- \$ 125 thousand in Other

Revenue Decreases:

- \$ 3.3 million in Grants and Contributions
- \$ 90 thousand in Property Taxes

Overall, Governmental Activity expenses decreased by \$ 311 thousand in the following categories:

Expenditure Increases:

- \$ 1.3 million in Physical Environment
- \$ 1.2 million in Public Safety
- \$ 503 thousand in Judicial
- \$ 133 thousand in Health and Human Services

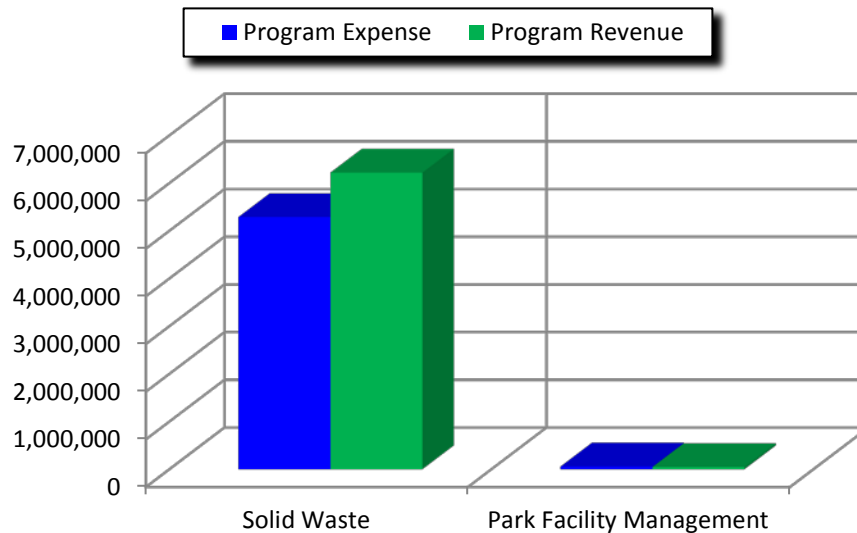
Expenditure Decreases:

- \$ 2.0 million in Transportation
- \$ 755 thousand in Economic Environment
- \$ 621 thousand in Culture and Recreation
- \$ 35 thousand in Interest on Long-Term Debt

General Revenues such as Property Taxes; Sales / Use Tax; Motor Vehicle Fuel Tax; Excise Tax; and Penalties and Interest are not shown by program, but they are used to support program activities countywide. For Governmental Activities, Property Taxes were the largest single source of revenue at thirty percent (29.8%); followed by Sales and Use Tax with fourteen percent (14.0%); Motor Vehicle Fuel Tax at twelve percent (12.1%); Excise Tax at four percent (4.2%); Penalties and Interest at four percent (3.9%) and Cable, E-911 at two percent (2.5%).

As shown on the previous chart Public Safety has the largest program expenses at twenty five percent (24.8%); followed by Transportation at twenty five percent (24.7%); General Government at eighteen percent (18.2%); Health and Human Services at ten percent (10.4%); Judicial at eight percent (7.5%); Economic Environment at six percent (6.2%); Physical Environment at five percent (4.5%); and Culture and Recreation at two percent (2.4%).

Business-type Activities
PROGRAM EXPENSES AND PROGRAM REVENUES



Business-type Activities increased the County's total Net Position by \$ 574 thousand to \$9.7 million during 2014, compared to the increase of \$9.1 million during 2013. Key factors contributing to the increase from the prior year are as follows:

- Overall, revenues exceeded expenditures by \$ 940 thousand, and includes the book entry reduction of \$ 171 thousand in expense per the County Sanitary Landfill Post-closure financial assurance plan. (see Note 18)
- Business-type Activities revenue increased by \$25 thousand, and actual expenses increased by \$634 thousand compared to those in the prior year.
- Solid Waste charges for service revenue increased by \$179 thousand (3.0%) due to the increasing activity at the transfer stations.

The chart above illustrates the County's Business-type Activities Expenses and Revenues by Program. As shown, Solid Waste has the largest program expenses at nine-nine percent (98.9%); followed by Park Facility Management with one percent (1.1%).

General Revenues such as Investment Earnings are not shown by Program, but are used to support Business-type activities. For Business-type Activities, Investment Earnings were three thousand dollars (\$2,986) which is a decrease of \$932 dollars from interest received in 2013, and reflects the current economic investment environment. Other miscellaneous revenue totaled sixteen thousand dollars (\$16,814) and includes an energy heating rebate of thirteen thousand dollars (\$12,927).

GOVERNMENTAL AND PROPRIETARY FUND ANALYSIS

As noted earlier, the County utilizes fund accounting to ensure and demonstrate legal compliance and to aid financial management by segregating transactions related to specific governmental activities, functions or objectives.

Governmental Funds

The focus of the County's Governmental Funds Statement is to provide information on near-term inflows, outflows, and balance of resources available. This type of information is useful in assessing the County's financing requirements. In particular, Unrestricted Fund Balance may serve as a useful measure of the County's net resources available at the end of the calendar year. The types of Governmental Funds reported by the County include the General Funds, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

On December 31, 2014, the County's Governmental Funds reported a combined ending Fund Balance of \$48.1 million, an increase of \$5.7 million (13.3%) over the prior year ending balance of \$42.4 million.

Comparative Analysis of Changes in Governmental Fund Balances

The following table presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net change in fund balance for Governmental Funds at December 31, 2014 and the previous year end of December 31, 2013.

Governmental Funds COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balance		Ending Fund Balances	
	2014	2013	2014	2013	2014	2013	2014	2013
Governmental Funds	26,115,677	23,069,740	25,012,963	22,916,811	1,102,714	152,929	11,852,473	10,749,759
County Road Fund	20,840,662	16,944,127	17,788,040	16,210,543	3,052,622	733,584	16,977,945	13,925,323
Special Revenue Funds	17,012,378	17,518,709	15,514,122	15,868,441	1,498,256	1,650,268	19,265,647	17,767,391
Total	63,968,717	57,532,576	58,315,125	54,995,795	5,653,592	2,536,781	48,096,065	42,442,473

The Fund Balance for Governmental Funds was \$11.8 million, showing an increase of \$1.1 million dollars over the prior year end balance of \$10.7 million. The County Road Fund was \$16.9 million, showing an increase of \$3.0 million over the prior year end balance of \$13.9 million. Special Revenue Funds had a combined ending Fund Balance of \$19.2 million, an increase of \$1.4 million over the prior year ending balance of \$17.7 million.

The following table provides a comparison of the General Fund Revenues and Expenditures and year-end balance on December 31, 2014, and the prior year end balance on December 31, 2013.

Comparative Analysis of Changes in the General Fund Balance

The General Fund is the chief operating fund of the County and the following table presents the detailed revenues, program expenditures, other financing sources and uses, and the net change in Fund Balance at year end 2014 and the previous year end, 2013. The following table represents only the General Fund and not the additional managerial funds that are presented in the Financial Statements.

**GENERAL FUND
REVENUE AND EXPENDITURE COMPARISON**

	General Fund		Dollar Variance	Percentage Variance
	2014	2013		
REVENUES				
Property Taxes	7,362,463	7,420,727	-58,264	-0.79%
Property Penalty & Interest	993,565	1,290,057	-296,492	-22.98%
Sales / Use Taxes	5,454,507	5,079,288	375,219	7.39%
Excise Taxes	696,006	663,862	32,144	4.84%
Permits / Licenses	1,118,680	1,016,583	102,097	10.04%
State Revenue	1,421,178	1,358,471	62,707	4.62%
Grant Revenue	1,051,110	1,082,637	-31,527	-2.91%
Intergovernmental	945,837	436,628	509,209	116.62%
Fees	1,757,990	1,700,331	57,659	3.39%
Fines	600,820	536,792	64,028	11.93%
Interest	1,290,472	-556,680	1,847,152	-331.82%
Other / Misc	113,790	95,552	18,238	19.09%
TOTAL REVENUES	22,806,418	20,124,248	2,682,170	13.33%
EXPENDITURES				
General Government	7,526,661	7,631,005	-104,344	-1.37%
Judicial	2,955,022	2,801,032	153,990	5.50%
Public Safety	9,432,053	8,426,750	1,005,303	11.93%
Physical Environment	168,924	160,786	8,138	5.06%
Economic Environment	1,978,931	1,779,304	199,627	11.22%
Culture and Recreation	282,550	206,014	76,536	37.15%
Capital Outlay	349,783	303,711	46,072	15.17%
Debt Service	10,577	4,889	5,688	116.34%
TOTAL EXPENDITURES	22,704,501	21,313,491	1,391,010	6.53%
OTHER FINANCING SOURCES (USES)				
Transfers In	2,734,676	2,380,096	354,580	14.90%
Transfers (Out)	-1,916,513	-1,188,184	-728,329	61.30%
TOTAL OTHER FINANCING SOURCES (USES)	818,163	1,191,912	-373,749	-31.36%
NET CHANGE	920,080	2,669		
Fund Balance, January 1,	9,845,023	9,842,354		
FUND BALANCE, DECEMBER 31,	10,765,103	9,845,023	920,080	

As shown on the table above the General Fund had an ending Fund Balance of \$10.7 million, which reflects an increase of \$ 920 thousand dollars over the prior year ending balance of \$9.8 million.

As a measure of the General Fund's liquidity, it may be useful to compare both the Total Fund Balance and the Unassigned Fund Balance to Total Fund Expenditures (total expenditures plus other financing uses). The following table represents only the General Fund and not the additional managerial funds that are presented in the Financial Statements.

**GENERAL FUND EXPENDITURES
FUND BALANCE COMPARISON**

General Fund		
	2014	2013
Fund Balance Classification		
Restricted	37,461	112,436
Committed	109,078	104,913
Assigned	2,206,025	2,206,025
Unassigned	8,412,540	7,421,650
Total Fund Balance	10,765,104	9,845,024
Expenses	24,621,014	22,501,675
Total Fund Balance	10,765,104	9,845,024
PERCENTAGE	43.72%	43.75%
Expenses	24,621,014	22,501,675
Unassigned Fund Balance	8,412,540	7,421,650
PERCENTAGE	34.17%	32.98%

On December 31, 2014, the General Fund Restricted Fund Balance was \$37 thousand and represents \$35 thousand for the Court Facilitator; and \$2 thousand for animal control; the General Fund Committed Fund Balance was \$109 thousand and represents \$91 thousand for technology, and \$18 thousand for parks; the General Fund Assigned Fund Balance was \$2.2 million and represents contingency funding; and the General Fund Unassigned Fund Balance was \$8.4 million.

General Fund Budgetary Revenue and Expenditure Changes

There is a variance between the final amended total General Fund revenue budget of \$26 million, which included a fund balance reserve transfer of \$1.7 million that was not transferred, and \$1.5 million in revenues increases between sales taxes, licenses, permits and interest. The un-spent expenditure budget of \$1.1 million reflects savings of \$662 thousand in salary and benefits, \$251 thousand in services, and \$167 thousand for contingency.

GENERAL FUND BUDGET TO ACTUAL		
	Budget	Actual
Revenues	25,740,873	25,541,094
Expenditures	25,740,873	24,621,014

Proprietary Funds

The County's Proprietary Fund Statements provide the same type of information found in the Government-wide Financial Statements under *Business-type Activities* column, but include more detail.

The following table shows actual revenues, expenses and the results of the operations for the calendar year 2014.

PROPRIETARY FUNDS

December 31, 2014

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non- Operating Revenues (Expenses)	Transfers In (Out)	Change in Net Position
Solid Waste	\$ 6,192,690	\$ 5,295,266	\$ 897,424	\$ 46,925	\$ (364,382)	\$ 579,967
Four Springs Lake Preserve	44,849	55,852	(11,003)	-	(1,400)	(12,403)
Internal Service Funds	4,089,753	4,243,148	(153,395)	12,271	239,900	98,776
TOTAL	\$ 10,327,292	\$ 9,594,266	\$ 733,026	\$ 59,196	\$ (125,882)	\$ 666,340

On December 31, 2014, total Net Position for Solid Waste was \$8.5 million, an increase of \$580 thousand dollars (7.3%) over the prior year balance of \$7.9 million. The increase largely represents the increased activity at the transfer stations; Four Springs Lake Preserve total Net Position was \$1.12 million a decrease of \$12 thousand (-1.09%) over the prior year balance of \$1.13 million; Internal Service Funds total Net Position was \$11.4 million an increase of \$98 thousand (0.87%) over the prior year balance of \$11.3 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital Assets include land, buildings, improvements, furniture, fixtures, equipment, automobiles, trucks, and infrastructure. Capital Assets for Governmental and Business-type Activities are presented below.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

December 31, 2014

	Governmental Activities		Business-type Activities		TOTAL	
	2014	2013	2014	2013	2014	2013
Land	22,746,618	22,052,886	1,067,537	1,067,537	23,814,155	23,120,423
Construction in Progress	7,617,606	6,011,985			7,617,606	6,011,985
Intangible (Right of Way)	5,348,411	5,297,673			5,348,411	5,297,673
Buildings	19,517,535	20,226,316	1,205,837	1,258,779	20,723,372	21,485,095
Intangible (Software)	360,728	671,366	26,594	32,503	387,322	703,869
Improvements (Other Than Buildings)	1,996,788	2,169,041	1,554,922	1,757,180	3,551,710	3,926,221
Machinery & Equipment	5,952,454	5,311,528	618,504	630,872	6,570,958	5,942,400
Infrastructure	57,046,817	55,469,884			57,046,817	55,469,884
TOTAL	120,586,957	117,210,679	4,473,394	4,746,871	125,060,351	121,957,550

The investment in total capital assets for both the Governmental and Business-type Activities as of December 31, 2014, increased by \$3.1 million (2.5%) to \$125 million (net of accumulated depreciation).

Major outlays for Capital Assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Additional information on the County's Capital Assets can be found in Note 6 of this report.

Debt Administration

The County debt obligations are in the forms of Limited Tax General Obligation Bonds (GOB), Certificates of Participation and State Revolving Loans. The following table summarizes the outstanding long-term debt at December 31, 2014 for Island County.

LONG-TERM LIABILITIES

	2014	2013
2005 Limited Tax General Improvement Refunding Bonds	2,395,000	3,125,000
2010 Limited Tax General Improvement Refunding Bonds	5,005,000	5,085,000
2014 B Certificates of Participation (COP)	416,404	
State Water Quality Assistance (L1000014)	67,092	99,990
State Water Quality Assistance (L0700005)	22,406	66,850
State Water Quality Assistance (L0600020)		67,779
State Water Quality Assistance (L1100002)	380,453	325,159
State Water Quality Assistance (L0000013)		304,971
TOTAL	8,286,355	9,074,749

As of December 31, 2014, the outstanding long-term debt was \$8.3 million. During the year \$730 thousand dollars of debt was retired on the 2005 GOB bonds; \$80 thousand dollars was retired on the 2010 GOB bonds; and \$450,092 dollars was retired on State Water Quality Assistance Loans. An addition \$55,294 dollars was awarded on the State Water Quality Assistance Loan L1100002, and principle payments for that loan do not start until 2016.

Additional information about the County's long-term obligations can be found in Note 12 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Washington State 2014 paints a different picture than that of the previous seven years of continuous economic decline. Washington continues to expand at a moderate pace and has enjoyed economic stability in several sectors including transportation manufacturing with commercial aviation and commercial trucking providing increases in employment, sales and exports. Single-family construction continues to show an increase and multi-family housing permits were very strong in the first quarter of 2015. Overall housing construction got off to a very strong start in 2015 as the number of units authorized by building permits soared to 53,600 (SAAR) in the first quarter of 2015, the highest quarterly rate since the first quarter of 2007. Regional home prices also continue to climb; and in the Seattle area the local home prices are back to just 7.7% below the pre-recession peak. Although, home prices and mortgage rates have increased, homes are still relatively affordable. It is predicted the Washington economy will continue to outperform the U.S. economy by a narrow margin. Employment opportunities offered by Microsoft, Amazon and Boeing continue to lead the way in reducing unemployment numbers by a significant margin.

Island County has experienced stabilization of the local economy without the continued declines in certain industries of previous years. Modest increases continue in new home construction and light manufacturing, and increases in retail sales, service and goods have provided needed employment opportunities. The entrepreneurial spirit has brought a few businesses to the forefront that might have otherwise waited until the economy was stronger. The County continues to realize slight gains in local property tax and sales and use tax. The local real estate and housing market, both in sales of existing homes and new construction starts, continues to rise. Although real estate interest rates have climbed over the last year, they still remain at historic lows, but qualifying requirements ramped up by lenders after the predatory lending and foreclosure onslaught of the previous years, may have affected on sales. For those able to qualify, 2014 was the ideal time to buy a home or land. Jobs in construction, local government, and private sector are beginning to track above the post-2007 lows.

The unemployment rate in Island County was 6.1% in March 2015 (not seasonally adjusted), which is down 4.9% from the peak unemployment rate which was 11.0% observed in February 2010.

The largest employers in Island County are Government entities, and comprised of the Naval Air Station Whidbey Island (NASWI), Island County, school districts and cities/towns. For federal and local government - dramatically impacted by the economic downturn - recovery has been slow and painful. Although, NASWI remained a constant source of job retention with continued job growth due to new and existing construction contracts, and in-coming aviation squadrons, there were still some reductions in staffing of some squadrons.

Naval Air Station Whidbey Island (NASWI) is a key component of Island County and Northwest Washington's economy. NASWI is the largest single employer in the Island, San Juan, Skagit and Whatcom counties region. The success of other industries within Island County is highly dependent of the employment situation at the naval air base. In 2011, NASWI had an estimated \$726 million dollar impact to the Island County economy in salaries and benefits to active duty military members and an additional \$107 million to federal civilians. Of the total compensation paid in Island County, 50% came from military compensation with an additional 8% coming from federal workers on NAS Whidbey. The NASWI population did decline in 2011 with the loss of some P-3 and P-8 operators and support personnel, and the impact equivalent increased the unemployment rate by 3.67%. . Based upon median income as a baseline, each Island County resident lost approximately \$835 per year due to NASWI changes in staffing and their payroll.. We include 2011 economic impact of personnel reduction for an historical perspective of NASWI value to the state and local economy. Revised 2014 data is unavailable at this time. The additional squadrons of EA-18G aircraft to NASWI in 2013 and 2014 has increased the base population. NASWI remains the economic engine of Island County and the Northwest Washington region. NAS Whidbey is a major employer on Whidbey Island and has also brought many highly skilled workers to Whidbey Island. However, there is not a strong economic base to provide sufficient employment for the spouses and dependents of those workers; consequently, commuting to nearby counties does provide a relief valve for residents seeking employment.

Island County continues to enjoy the desirable lifestyle of a small rural community within easy reach of the major cities to the north and south. The economic downturn increased the number of residents seeking employment off the islands as more employers in the County reduced staff and trimmed budgets. The economic decline reached Island County later than the East Coast and Midwest; the local economy is rebounding at a slower rate as expected. The local economy appears to continue to stabilize and is experiencing modest, diverse increases.

Island County remains a preferred location for retirees seeking a more relaxed lifestyle. Affordable property in a moderate climate and low crime rate makes Island County a highly desirable place to live, work, retire and play. The County - comprised entirely of islands - has two major islands that are well populated and several smaller ones that are uninhabited. The populated islands – Whidbey and Camano - have vehicle access to the mainland, the interstate highway via bridge and/or ferry. The two populated islands have well maintained county roads, state highways and the incorporated areas have full city amenities. The desirability of living in the islands has led many to locate their business or small company to Whidbey or Camano, where they can utilize numerous electronic options available to conduct business worldwide.

The real estate and housing market continues to see growth and the number of foreclosures declining from the previous six years. The continued increase in sales and sale prices resulted in an uptick in Island County real estate excise taxes and fees in 2014. This trend appears to be gaining strength due to stable property prices, low interest rates, and desirability of location and is expected to continue into 2015. Revenue from new custom construction remains dramatically lower than pre-2007 timeframe, but continued to grow in 2014. Inventory growth is slowing and home sales prices are increasing; and are expected to offer continued growth in 2015. Property valuations for 2014 reflected a slight increase in some property types, as evidenced by the 2014 property tax evaluation statements.

The year 2014 continued to appear to be a turning point for the local economy: The year ended with the lowest unemployment rate in 6 years - less than 6%; job growth at most major employers in the State – especially Boeing, Microsoft and Amazon - promises more jobs in 2015

The County's financial status and budget outlook are continuously monitored, as the County continues to face significant fiscal challenges. These include:

- Labor, Health Care and Pension costs continue to increase;
- Aging infrastructure and unfunded capital needs;
- Funding the outstanding liability for Compensated Absences; and
- Funding the outstanding Other Post Employment Benefit (OPEB) liabilities

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Island County finances. We hope the proceeding information has provided a general overview of the County's overall financial status. Requests for additional information, and questions or comments regarding this report should be addressed to:

Island County
Auditor's Office
Attn: Sheilah Crider
PO Box 5000
Coupeville, WA 98239-5000

ISLAND COUNTY, WASHINGTON
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2014

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Pooled Investments	\$ 46,868,006	\$ 4,909,936	\$ 51,777,942
Taxes Receivable	1,094,592		1,094,592
Other Receivables, Net	1,192,287	251,726	1,444,013
Internal Balances	(133,547)	133,547	
Due From Other Governments	6,558,990	320,340	6,879,330
Inventories	476,833		476,833
Prepaid Items	359,197		359,197
Unamortized Debt Issuance	461,161		461,161
Note Receivable - Current Portion	122,698		122,698
Restricted Assets - Cash Surplus Invested		1,579,218	1,579,218
Investments Of Surplus Cash At Fair Value			-
Note Receivable - Noncurrent Portion	389,626		389,626
Capital Assets - Not Being Depreciated			
Land	22,746,618	1,067,537	23,814,155
Construction In Progress	7,617,606		7,617,606
Intangibles	5,348,410		
Capital Assets - Net Of Accumulated Depreciation			
Buildings and Other Improvements	21,514,324	2,760,762	24,275,086
Machinery and Equipment	5,952,456	618,505	6,570,961
Infrastructure	57,046,817		57,046,817
Intangibles	360,730	26,594	5,735,734
Total Capital Assets	120,586,961	4,473,398	125,060,359
TOTAL ASSETS	177,976,804	11,668,165	189,644,969
LIABILITIES			
Accounts Payable	1,709,269	104,082	1,813,351
Other Current Liabilities	626,747	17,564	644,311
Due To Other Governments	61,441	14,322	75,763
Grant Revenue		45,278	45,278
Accrued Liabilities - Current Portion	158,789	19,943	178,732
Non-Current Liabilities			
Payable From Restricted Assets		1,579,218	1,579,218
Accrued Liabilities	5,015,273	134,380	5,149,653
Due Within One Year	1,016,117		1,016,117
Bond Premium	218,655		218,655
Due In More Than One Year	7,342,712		7,342,712
TOTAL LIABILITIES	16,149,003	1,914,787	18,063,790
NET POSITION			
Net Investment In Capital Assets	113,306,466	4,473,398	117,779,864
Restricted For:			
General Government	6,717,874		6,717,874
Judicial	141,405		141,405
Public Safety	373,331		373,331
Culture And Recreation	1,375,297		1,375,297
Economic Environment	4,886,905		4,886,905
Mental And Physical Health	2,119,105		2,119,105
Road And Streets	17,067,849		17,067,849
Capital Projects	6,164,762		6,164,762
Other Purposes	19,836		19,836
Physical Environment	2,057,651		2,057,651
Unrestricted	7,597,320	5,279,980	12,877,300
TOTAL NET POSITION	\$ 161,827,801	\$ 9,753,378	\$ 171,581,179

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

FUNCTIONS OF THE PRIMARY GOVERNMENT	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		TOTAL	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES		
GOVERNMENTAL ACTIVITIES								
General Government	\$ 8,884,388	\$ 1,132,958	\$ 1,777,532	\$ 8,986	\$ (5,964,912)	\$	\$	\$ (5,964,912)
Judicial	3,642,174	1,071,840	364,662		(2,205,672)			(2,205,672)
Public Safety	12,027,526	185,736	1,233,707		(10,608,083)			(10,608,083)
Physical Environment	2,208,530	1,553,761	456,874		(197,895)			(197,895)
Transportation	12,006,258	940,204	1,342,480	1,719,286	(8,004,288)			(8,004,288)
Health and Human Services	5,078,224	733,692	2,508,891		(1,835,641)			(1,835,641)
Economic Environment	3,031,148	2,049,680	320,161		(661,307)			(661,307)
Culture and Recreation	1,201,722	828,974	81,026		(291,722)			(291,722)
Interest On Long-Term Debt	376,189				(376,189)			(376,189)
TOTAL GOVERNMENTAL ACTIVITIES	48,456,159	8,496,845	8,085,333	1,728,272	(30,145,709)			(30,145,709)
BUSINESS-TYPE ACTIVITIES								
Solid Waste	5,288,750	6,175,879	43,936			931,065	931,065	931,065
Park Facility Management	55,852	44,849				(11,003)	(11,003)	(11,003)
TOTAL BUSINESS-TYPE ACTIVITIES	5,344,602	6,220,728	43,936			920,062	920,062	920,062
TOTAL PRIMARY GOVERNMENT	\$ 53,800,761	\$ 14,717,573	\$ 8,129,269	\$ 1,728,272	\$ (30,145,709)	\$ 920,062	\$ (29,225,647)	
	General Revenues							
	Taxes							
	Property Taxes Levied for General Purpose							
	Property Taxes Levied for Roads							
	Property Taxes Levied for Specific Purpose							
	Sales and Use Tax							
	Motor Vehicle Fuel Tax							
	Excise Taxes							
	Miscellaneous							
	Penalties and Interest							
	Cable, 911 Excise Tax							
	Gain (Loss) on Sale of Capital Assets							
	Transfers							
	Total General Revenues and Transfers							
	Change in Net Position							
Net Position - Beginning of Year								
NET POSITION, END OF YEAR								

ISLAND COUNTY, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	GENERAL FUND	COUNTY ROAD FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Pooled Investments	10,395,883	15,487,390	18,652,870	44,536,143
Taxes Receivable	582,160	400,433	111,998	1,094,591
Other Receivables, Net	738,265	954	170,369	909,588
Due From Other Funds	-	-	11,887	11,887
Interfund Loans Receivable	-	-	-	-
Due From Other Governments	1,587,340	2,957,980	1,791,269	6,336,589
TOTAL ASSETS	13,303,648	18,846,757	20,738,393	52,888,798
LIABILITIES				
Accounts Payable	513,154	637,073	458,663	1,608,890
Due To Other Funds	8,516	3,371	-	11,887
Interfund Loans Payable	-	-	-	-
Due To Other Governments	116	5	61,141	61,262
Accrued Liabilities	189,612	53,744	223,526	466,882
TOTAL LIABILITIES	711,398	694,193	743,330	2,148,921
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Tax	582,160	400,433	111,999	1,094,592
Unavailable Revenue - Grants	154,193	774,186	447,048	1,375,427
Unavailable Revenue - Other	3,424	-	170,369	173,793
TOTAL DEFERRED INFLOWS OF RESOURCES	739,777	1,174,619	729,416	2,643,812
FUND BALANCES (DEFICITS)				
Nonspendable	-	-	-	-
Restricted	294,861	15,113,090	16,149,327	31,557,278
Committed	170,533	6,177	604,447	781,157
Assigned	2,947,282	1,858,678	2,511,873	7,317,833
Unassigned	8,439,797	-	-	8,439,797
TOTAL FUND BALANCES	11,852,473	16,977,945	19,265,647	48,096,065
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)	13,303,648	18,846,757	20,738,393	52,888,798

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

ISLAND COUNTY, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014

Total Fund Balances as shown on the Governmental Funds Balance Sheet	\$ 48,096,065
Capital Assets used in Governmental Activities are not financial resources, therefore are not reported in the Funds	107,099,635
Capital Assets acquired through donation of property value are not included in the Funds	4,848,557
Long-term debts are not due and payable in the current period, therefore are not reported in the Funds	(8,577,484)
Other Assets are not available to pay current expenditures, such as property taxes and notes receivables, therefore are not reported in the Funds.	4,076,122
Internal Service Funds are used by the County to charge the costs of insurance, equipment, and motor pool to individual Funds. The assets and liabilities of the Internal Service Funds are included in the Governmental Activities in the Statement of Net Position.	11,267,262
Other Liabilities such as Compensated Absences that are not due and payable in the current period, are not reported in the Funds.	<u>(4,982,356)</u>
Net Position of Governmental Activities	<u><u>\$ 161,827,801</u></u>

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	GENERAL FUND	COUNTY ROAD FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 14,506,542	\$ 8,155,563	\$ 6,998,883	\$ 29,660,988
Licenses and Permits	1,144,091	89,479	568,196	1,801,766
Intergovernmental Revenue	3,207,877	11,530,148	3,355,199	18,093,224
Charges for Services	2,058,324	1,018,647	3,178,396	6,255,367
Fines and Forfeits	600,820		5,061	605,881
Interest and Investment Earnings	1,290,485		(61,753)	1,228,732
Miscellaneous	263,384	3,652	161,591	428,627
TOTAL REVENUES	23,071,523	20,797,489	14,205,573	58,074,585
EXPENDITURES				
CURRENT				
General Government	7,858,168		504,684	8,362,852
Judicial	2,955,022		443,603	3,398,625
Public Safety	9,447,980		1,984,236	11,432,216
Utilities and Environment	192,353		2,272,233	2,464,586
Transportation		10,061,378	620,596	10,681,974
Economic Environment	1,978,931		988,244	2,967,175
Mental and Physical Health			4,996,738	4,996,738
Culture and Recreation	295,176		755,486	1,050,662
DEBT SERVICE				
Principal			1,260,093	1,260,093
Interest	10,577		335,239	345,816
CAPITAL OUTLAY	357,343	5,255,314	165,573	5,778,230
TOTAL EXPENDITURES	23,095,550	15,316,692	14,326,725	52,738,967
Excess (Deficiency) of Revenues Over Expenditures	(24,027)	5,480,797	(121,152)	5,335,618
OTHER FINANCING SOURCES (USES)				
Proceeds of Long Term Debt			60,295	60,295
Insurance Recovery		12,726	117,698	130,424
Disposition of Capital Assets		1,373		1,373
Transfers In	3,044,154	29,074	2,628,812	5,702,040
Transfers (Out)	(1,917,413)	(2,471,348)	(1,187,397)	(5,576,158)
TOTAL OTHER SOURCES (USES)	1,126,741	(2,428,175)	1,619,408	317,974
NET CHANGE IN FUND BALANCES	1,102,714	3,052,622	1,498,256	5,653,592
Fund Balances, At Beginning of Year As Previously Reported	10,749,759	13,925,323	17,767,391	42,442,473
Prior Period Adjustment				
Fund Balances, At Beginning of Year Restated	10,749,759	13,925,323	17,767,391	42,442,473
FUND BALANCES, END OF YEAR	\$ 11,852,473	\$ 16,977,945	\$ 19,265,647	\$ 48,096,065

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

ISLAND COUNTY, WASHINGTON
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net Change in Fund Balances for Governmental Funds	\$ 5,653,592
Governmental Funds report capital outlay as expenditure. However in the Statement of Activities, the cost of the assets is allocated over the estimated useful lives and reported as depreciation expense.	3,184,838
Proceeds of notes receivable provide current resources to Governmental Funds but decrease assets in the Statement of Net Position.	(72,335)
Debt proceeds provide current financial resources to Governmental Funds but debt increases long-term liabilities in the Statement of Net Position	(55,295)
The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayments of principal on long-term debt are expenditures in Governmental Funds. Neither transaction has any effect on Net Position. Governmental Funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas those amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of those differences in the treatment of long-term debt and related items.	1,260,093
Internal Service Funds are used by the County to charge the costs of insurance, equipment, and motor pool to individual Funds. The net costs of the Internal Service Funds are reported with the Governmental Activities in the Statement of Activities.	92,260
Some expenses and revenues reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures and revenues in governmental funds.	<u>(1,962,553)</u>
Changes in Net Position of Governmental Activities on the Statement of Activities	<u>\$ 8,100,600</u>

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2014

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
ASSETS				
Current Assets				
Cash and Pooled Investments	\$ 4,900,335	\$ 9,601	\$ 4,909,936	\$ 2,331,863
Due From Other Funds				
Other Receivables, Net	251,726	-	251,726	21,880
Due From Other Governments	315,340	5,000	320,340	24,395
Inventories				476,832
Prepaid Items				359,197
Total Current Assets	5,467,401	14,601	5,482,002	3,214,167
Noncurrent Assets				
Restricted Assets - Cash	1,579,218		1,579,218	
Capital Assets - Net Of Accumulated Depreciation				
Land	559,890	507,647	1,067,537	781,692
Buildings and Other Improvements	2,150,419	610,343	2,760,762	2,590,333
Machinery and Equipment	618,505		618,505	5,266,744
Intangible Assets	26,594		26,594	
Total Non-Current Assets	4,934,626	1,117,990	6,052,616	8,638,769
TOTAL ASSETS	10,402,027	1,132,591	11,534,618	11,852,936
LIABILITIES				
Current Liabilities				
Accounts Payable	102,903	1,179	104,082	100,379
Due To Other Funds				
Due To Other Governments	14,311	11	14,322	180
Accrued Wages	17,311	253	17,564	7,322
Other Current Liabilities	45,278		45,278	284,299
Total Current Liabilities	179,803	1,443	181,246	392,180
Noncurrent Liabilities				
Payable From Restricted Assets	1,579,218		1,579,218	
Compensated Absences	145,426	8,897	154,323	59,947
Total Noncurrent Liabilities	1,724,644	8,897	1,733,541	59,947
TOTAL LIABILITIES	1,904,447	10,340	1,914,787	452,127
NET POSITION				
Net Investment In Capital Assets	3,355,408	1,117,990	4,473,398	8,638,769
Unrestricted	5,142,172	4,261	5,146,433	2,762,040
TOTAL NET POSITION	\$ 8,497,580	\$ 1,122,251	9,619,831	\$ 11,400,809
Funds			133,547	
NET POSITION OF BUSINESS-TYPE ACTIVITIES			\$ 9,753,378	

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
OPERATING REVENUE				
Charges For Services	\$ 6,192,690	\$	\$ 6,192,690	\$ 838,924
Equipment and Space Rents		44,849	44,849	2,340,512
Sales of Merchandise				910,317
Total Operating Revenues	6,192,690	44,849	6,237,539	4,089,753
OPERATING EXPENSES				
Wages and Benefits	1,493,581	24,531	1,518,112	662,106
Maintenance and Operation	3,469,472	14,495	3,483,967	2,595,173
Depreciation and Amortization	332,213	16,826	349,039	985,869
Total Operating Expenses	5,295,266	55,852	5,351,118	4,243,148
NET OPERATING INCOME (LOSS)	897,424	(11,003)	886,421	(153,395)
NON-OPERATING REVENUE (EXPENSE)				
Interest Income	2,989		2,989	
Interest Expense				
Operating Grants	43,936		43,936	
Miscellaneous Income (Expense)			-	
Sale of Capital Assets				12,271
Total Non-Operating Income	46,925	-	46,925	12,271
Net Income Before Transfers	944,349	(11,003)	933,346	(141,124)
Transfers In				465,000
Transfers Out	(364,382)	(1,400)	(365,782)	(225,100)
CHANGE IN NET POSITION	579,967	(12,403)	567,564	98,776
Total Net Position - Beginning	7,917,613	1,134,654		11,302,033
Total Net Position - Ending	\$ 8,497,580	\$ 1,122,251		\$ 11,400,809
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds			6,515	
CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES			\$ 574,079	

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Operations	6,406,241	44,849	6,451,090	4,115,968
Payments For Wages and Benefits	(1,492,815)	(24,185)	(1,517,000)	(647,793)
Payments To Suppliers For Goods and Services	(3,566,443)	(12,530)	(3,578,973)	(2,497,671)
Internal Activity - Payments To Other Funds	(249,114)	(2,463)	(251,577)	-
Net Cash Provided (Used) By Operating Activities	1,097,869	5,671	1,103,540	970,504
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating Grants	(165,539)	1,350	(164,189)	
Transfer Cash From Restricted Cash Assets	170,562	-	170,562	
Transfers	(364,383)	(1,400)	(365,783)	239,900
Net Cash Provided (Used) By Non-Capital Financing Activities	(359,360)	(50)	(359,410)	239,900
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases Of Capital Assets	(75,562)	-	(75,562)	(1,190,252)
Cash Received From Sale Of Capital Assets	-	-	-	25,212
Net Cash Used For Capital and Related Financing Activities	(75,562)	-	(75,562)	(1,165,040)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest On Investments	2,987	-	2,987	-
Net Cash Provided By Investing Activities	2,987	-	2,987	-
Net Increase (Decrease) In Cash and Cash Equivalents	665,934	5,621	671,555	45,364
Cash and Cash Equivalents At Beginning of Year	4,234,401	3,980	4,238,381	2,286,499
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,900,335	9,601	4,909,936	2,331,863
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	897,424	(11,003)	886,421	(153,395)
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities				
Depreciation and Amortization	332,213	16,826	349,039	985,869
Change In IBNR				46,699
Changes In Assets and Liabilities				
Accounts Receivable, Net	213,551	-	213,551	50,611
Inventory				(14,204)
Accounts Payable	(222,848)	(498)	(223,346)	21,210
Compensated Absences	766	346	1,112	14,313
Other Operating Assets	47,325		47,325	19,401
Landfill Liability	(170,562)		(170,562)	
Interfund Activity	-	-	-	-
Total Adjustments	200,445	16,674	217,119	1,123,899
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,097,869	5,671	1,103,540	970,504

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

ISLAND COUNTY, WASHINGTON
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2014

	AGENCY FUNDS
ASSETS	
Cash	\$ 22,286,134
Investments, At Fair Value	20,399,527
Taxes Receivable	4,424,098
Other Receivables, Net	4,946
Due From Other Governments	3,307
TOTAL ASSETS	\$ 47,118,012
LIABILITIES	
Accounts Payable	4,883,450
Custodial Accounts	42,234,562
TOTAL LIABILITIES	\$ 47,118,012

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Island County have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Island County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, beginning with the 2012 reporting year.

In addition, during 2013, Island County implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

A. Reporting Entity

Incorporated on January 6, 1853, Island County operates under the laws of the State of Washington applicable to Category 1 Counties with a Commissioner form of government. As required by the GAAP the financial statements present Island County – the primary government.

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

B. Government-wide and Fund Financial Statements

Government-wide Statements: The Government-wide Financial Statements consist of two financial statements: 1) Statement of Net Position; and 2) Statement of Activities, and report information on all the nonfiduciary activities of Island County. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between *governmental* and *business-type* activities. Governmental activities generally are supported through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. Interfund services provided and used are not eliminated in the process of consolidation.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities, and each segment of the County's business-type activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges to customers and applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including taxes are reported as general revenues.

Fund Financial Statements: The Fund Financial Statements provide information about the County's funds, including blended component units. Separate statements for each fund category - *governmental* and *proprietary* – are presented. The emphasis of Fund Financial Statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The County reports the following functions:

- General Government: Legislative and administrative services, including judicial, recording, elections, financial services, personnel administration, risk management, and facility management.
- Public Safety: Protection and safety of the citizens at large, including law and regulatory enforcement, prevention and emergency services, inspections, detention, corrections, and juvenile services.
- Utilities and Environment: Programs that improve the physical environment of the community for the citizens of Island County including natural resources, water, solid waste, drainage and animal control.
- Transportation: Programs to ensure the safe and adequate flow of vehicles and pedestrians within Island County, including road and street construction, maintenance and preservation.
- Economic Environment: Programs that improve the welfare of the community and individuals of Island County, including community development, planning and housing.
- Mental and Physical Health: Programs that provide prevention, intervention and rehabilitative human services for the citizens of Island County with an emphasis on serving those most in need. This includes veteran's services, mental health, substance abuse prevention and treatment, aging, public health, and children's services.
- Culture and Recreation: Costs associated with the maintenance and operations of Island County parks, paths and trails, natural land, recreational facilities, and the fairgrounds.

Island County allocates indirect costs to specific functions through transfers. The amounts are based on estimated allocations of budget expenditures to the functions. Those amounts have been eliminated in the Government-wide Financial Statements. Capital transfers are recorded for the fund's share of the capital expenditure. Other operating transfers are transactions in which assets are moved without compensation or requirement for repayment. Those amounts have been eliminated within the Governmental Activities and Business-type Activity Statements. Transfers between the two activities are shown on the Statement of Activities.

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

The Government-wide, Proprietary, and Fiduciary Fund Financial Statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Under this method, revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. 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.

Governmental Fund Financial Statements are reported using the *current financial resources* measurement focus and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are both *measurable* and *available*. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Island County considers revenues including property taxes to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. 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 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 susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is receivable by Island County.

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

The County reports the following major Governmental Funds:

- **General Fund:** This fund is Island County's operating fund. This fund represents all the financial resources of the general government, except those required to be accounted for in another fund. Managerial funds, which do not meet the requirement of special revenue funds, are combined and all activity is reported as the General Fund.
- **County Road Fund:** This fund is utilized to account for the construction, maintenance and preservation of county roads and streets, and the design and coordination of countywide public works projects. The fund was established in accordance with RCW 36.33.220. Revenue is primarily derived from road and other taxes and Federal and State grants.

The County reports the following major Proprietary Fund:

- **Solid Waste Fund:** This fund is utilized to account for the operations, capital improvements and debt service of the County Solid Waste Facilities. Revenue originates from the collection of fees at the facilities.

Island County, like other State and Local Governments, utilizes fund accounting to ensure and demonstrate finance related legal compliance and to aid financial management by segregating transactions related to specific governmental activities, functions or objectives. Each fund is considered a separate accounting entity and has a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. The funds are summarized by fund type in the fund financial statements. The following are the fund types utilized by Island County:

GOVERNMENTAL FUND TYPES

All Governmental Funds are accounted for on a spending or "financial flow" measurement focus. This means only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current position) is considered a measure of "available expendable resources". Governmental fund operating statements focus on measuring changes in financial position rather than net income; they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net total position. The unassigned fund balance is a measure of available spendable resources.

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

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

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

Capital Projects Funds - These funds represent financial resources that are restricted, committed, or assigned for the acquisition or construction of general government capital improvements.

PROPRIETARY FUND TYPES

Proprietary Funds are accounted for using the economic resources measurement focus, which emphasizes the measurement of costs and determination of net income. All assets

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

Proprietary Funds are generally utilized to account for services for which the County charges customers, or internal departments or agencies. Island County maintains the following two types of Proprietary Funds:

Enterprise Funds – Enterprise Funds are supported by fees paid by users based on the amount of goods or services received. The County utilizes Enterprise Funds for the following:

- Solid Waste Management: This fund represents the administration, operation, capital improvement and debt service of the County Solid Waste Facilities.
- Park Facility Management Fund: This fund represents the administration, operation, maintenance and capital improvements of County-owned parks and habitat conservation areas.

Internal Service Funds – Internal Service Funds represent the financing of services and supplies provided by one department or agency, to other departments or agencies of the County on a cost-reimbursement basis. These services predominantly benefit governmental rather than Business-type functions; therefore, they are included within the Governmental Activities in the Government-wide Financial Statements. The Internal Services Funds are combined into a single, aggregated presentation, in the Proprietary Fund Financial Statements. The County utilizes Internal Service Funds for the following:

- Equipment Rental and Revolving Fund: This fund represents the maintenance, operation, and inventory of equipment and road construction materials utilized by the Public Works Department.
- Insurance Reserve Fund: This fund represents the self-insurance, outside insurance, and claims for Island County.
- Motor Pool Fund: This fund represents the purchase, maintenance, and tracking of County owned vehicles.

FIDUCIARY FUND TYPES

These funds represent cash and other assets held by Island County acting in the capacity of trustee or custodian on behalf of other governments and other funds.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the General, Special Revenue, and Proprietary Funds on the modified accrual cash basis of accounting and include expenditures paid in 2014 and January 2015, plus 2013 expenditures paid after January 31, 2014. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project each calendar year.

Annual appropriated budgets are adopted at the Fund level except in the General Fund, where the level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the Department level. Subsidiary revenue and expenditure ledgers are utilized to compare the budgeted amounts with actual revenues and

expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for all budgeted funds lapse at year-end.

2. Amending the Budget

The Board of Commissioners must approve by resolution any increase in total Fund appropriations. The Budget Director may authorize transfers of appropriations not to exceed twenty thousand dollars (\$20,000) within a Fund for the respective Department's budget.

The Budget Comparison Schedule displays the original and final budget information for both the General Fund (and all the additional managerial funds that are presented in the Financial Statements) and the County Road Fund. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the calendar year.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Pool Investments

Cash and pool investments include cash on hand, demand deposits, short and long-term investments. All funds not required for immediate expenditure are invested. On December 31, 2014, the Treasurer reported long-term investments of \$56,068,639 for Island County, and \$20,594,477 for public entities required to deposit funds with the County Treasury.

Long-term investment interest is allocated to the various funds based on cash held in each fund on December 31, 2014. The interest on investments for all fiduciary, trust, and agency funds are credited to the General Fund. The interest for government funds, without resolutions directing investments, is recorded in the General Fund.

2. Investments - See Deposits and Investment Note 4

3. Receivables

Taxes receivable consist of property taxes levied. Related interest and penalties are accrued when earned; measurable and available (See Note 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services.

4. Amounts Due To and From Other Funds, and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as interfund loans or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Due to/from other funds include short-term interfund receivables and payables. Any residual balances outstanding between governmental activities and business-type activities are reported as internal balances in the government-wide financial statement.

On December 31, 2014, there were no outstanding interfund loans. A separate schedule of interfund balances and transfers is provided in Note 15.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The costs are recorded as expenditures at the time of purchase. Ending inventories of materials

and supplies are not material; therefore, they are not recorded as inventory in governmental funds. Inventories in proprietary funds are recorded by the weighted average cost method for crushed rock, fuel and oil inventory. Ending inventory is valued at the lower of cost or market.

6. Restricted Assets and Liabilities

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

The Solid Waste Fund has restricted assets, consisting of cash of \$1,579,218, set aside for the landfill closure and post-closure costs, including maintenance, monitoring equipment and facilities. The amount is also shown as a liability payable from restricted assets. (see Note 18)

7. Capital Assets - (See Note 6)

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

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

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

8. Compensated Absences

Total accrued liabilities for the primary government consist of compensated absences of \$3,770,940 and other post-employment benefits (OPEB) payable of \$1,471,129. Compensated absences are leave accruals for which employees will be paid, such as earned compensated time, vacation and sick leave. The County records all vacation and sick leave liability when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Contracts with employees include the accumulation of vacation and sick leave. At retirement or termination, employees receive a cash payment for their accumulated vacation leave in accordance with their contract, or up to a maximum of 240 hours, and fifty percent (50%) of sick leave accumulated up to a maximum of 960 hours. The payment is calculated on the current wages at retirement or termination. Other post-employment benefits payable are disclosed in Note 17.

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a

future period(s); therefore, it will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s); therefore, it will *not* be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the fund financial statements include delinquent taxes, grants and court judgments that are earned, but not yet available under the modified accrual basis of accounting. At the government-wide level, the deferred inflows are converted to assets under the accrual basis of accounting.

11. Fund Balance Classification

The County implemented GASB Statement No 54 *Fund Balance Reporting and Governmental Fund Type Definitions* beginning with the 2011 reporting year, which required the County to classify its fund balances based on the spending constraints imposed on the use of resources. There are five Fund Balance classifications: Nonspendable; Restricted; Committed; Assigned; and Unassigned. For programs with multiple funding sources, the County prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned.

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

Restricted Fund Balance: This represents the portion of fund balance that has external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation, which requires the resources to be utilized only for a specific purpose.

Committed Fund Balance: This represents the portion of fund balance with constraints imposed by formal action of the Board of Commissioners, by resolution and remain binding unless removed in the same manner.

Assigned Fund Balance: This represents the portion of fund balance with constraints by the County's intent to be utilized for a specific purpose, but does not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board or a management official delegated that authority by formal Governing Board action.

Unassigned Fund Balance: This represents the residual amount of fund balance that has not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

12. Fund Balance Details

The table on the following page provides the specific purpose of Island County's fund balance classifications as of December 31, 2014.

13. Minimum Fund Balance

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

At December 31, 2014, all funds had total fund balances in excess of two months revenue except the Family Resource Center Fund, Public Health Fund, Human Services Administration Fund, Natural Resources, Law Library, and Enhanced 911 Fund. The Family Resource Center Fund is \$22 thousand dollars short of the two months requirement; the Public Health Fund is \$251 thousand dollars short of the two months requirement; the Human Services Administration Fund is \$125 thousand dollars short of the two months requirement; and the Natural Resources Fund is \$144 thousand dollars short of the two month requirement. All cash flow requirements can be covered by other departmental funds which are supported. The Law Library is \$3 thousand dollars short of the two month requirement. The Enhanced 911 Fund receives telephone taxes and has an agreement with I-COM to provide 911 services. The fund remits taxes collected in exchange for the services and therefore covers its cash flow needs.

FUND BALANCE CLASSIFICATIONS
December 31, 2014

	General Fund	County Road Fund	Other Governmental Funds	Total
Restricted Fund Balance				
General Government Services	\$ 134,403		\$ 532,398	\$ 666,801
Judicial	35,921		37,116	73,037
Public Safety	107,584		51,088	158,672
Utilities and Environment	1,540		1,533,610	1,535,150
Transportation		15,113,091	693,484	15,806,575
Economic Environment			4,653,873	4,653,873
Mental and Physical Health			1,959,081	1,959,081
Culture and Recreation			524,339	524,339
Capital			6,164,338	6,164,338
Other	15,413			15,413
Committed Fund Balance				
General Government Services	90,863			90,863
Judicial				
Public Safety				
Utilities and Environment				
Transportation		6,177		6,177
Economic Environment				
Mental and Physical Health			67,530	67,530
Culture and Recreation	79,670		536,917	616,587
Capital				
Other				
Assigned Fund Balance				
General Government Services	2,936,676		32,630	2,969,306
Judicial	6,025		127,128	133,153
Public Safety			506,196	506,196
Utilities and Environment			33,557	33,557
Transportation		1,858,678	476,016	2,334,694
Economic Environment			9,238	9,238
Mental and Physical Health			242,257	242,257
Culture and Recreation			1,084,427	1,084,427
Capital			424	424
Other	4,581			4,581
Unassigned Fund Balance				
	8,439,797		-	8,439,797
Total	\$ 11,852,473	\$ 16,977,946	\$ 19,265,647	\$ 48,096,066

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

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position are included in the Financial Statements. Following are the details of the reconciliation.

1. Capital Assets used in Governmental Activities are not financial resources therefore are not reported in the funds.	
Balance of Capital Assets at beginning of year	\$ 104,605,854
Assets acquired during 2014	5,777,138
Less Current year asset disposition	(13,920)
Less Current year depreciation expense	(3,269,437)
Total	<u>\$ 107,099,635</u>
2. Capital Assets acquired through donation of property value are not financial resources therefore are not reported in the funds.	
Total	<u>\$ 4,848,557</u>
3. Long-term debts not due and payable in the current period are not reported in the funds.	
Balance of long-term debt at beginning of year	\$ (9,249,222)
Current year new issue 2014B Certificates of Participation	(484,961)
LEOFF – Law Enforcement Officers and Fire Fighters Retirement System	(72,475)
Current year principal payments	1,260,092
Current year loan proceeds	(55,294)
Current year amortization of bond premium	24,376
Total	<u>\$ (8,577,484)</u>
4. Other Assets not available to pay current expenditures, such as property taxes and notes receivables are not reported in the funds.	
Property tax receivable at end of year	\$ 1,094,592
District Court receivables not available to finance expenditures	431,188
Note receivable balance water quality assistance at end of year	173,793
Debt refunding and issuance costs	436,214
Grant revenue receivable at end of year	1,375,727
Assets held for resale	24,947
Current year new issue 2014B Certificates of Participation	484,961
Other Receivables	55,000
Total	<u>\$ 4,076,122</u>
5. Internal Service Funds are utilized to account for the costs of services or supplies provided to individual funds, such as insurance, equipment, and motor pool. The assets and liabilities of those funds are included in Governmental Activities in the Statement of Net Position.	
Net Position: Insurance Reserve applicable to Governmental Funds	\$ 1,205,728
Net Position: Motor Pool applicable to Governmental Funds	744,834
Net Position: Equipment Rental/Revolving applicable to Governmental Funds	9,316,700
Total	<u>\$ 11,267,262</u>
6. Other Liabilities such as Compensated Absences, Other Post-Employment Benefits and Interest that are not due and payable in the current period are not reported in the funds.	
Compensated Absences payable at year end	\$ (3,556,671)
Other Post-Employment Benefits payable at year end	(1,398,654)
Interest due on long-term debt and other payables at year-end	(27,031)
Total	<u>\$ (4,982,356)</u>

Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities are included in the Financial Statements. Following are the details of the reconciliation.

1. Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful life and reported as depreciation expense.	
Assets acquired during 2013	\$ 5,777,138
Land Donated in 2014	691,057
Less Current year depreciation expense	(3,269,437)
Less Current year assets disposition	(13,920)
Total	<u>3,184,838</u>
2. Net Proceeds of notes receivable provide current resources to Governmental Funds but decrease assets in the Statement of Net Position.	
Proceeds of Notes Receivable	\$ (127,630)
Notes Receivable amounts issued	55,295
Total	<u>\$ (72,335)</u>
3. Debt proceeds provide current financial resources to Governmental Funds but debt increases long-term liabilities in the Statement of Net Position	
Proceeds from other debt	Total
	<u>\$ (55,295)</u>
4. General Obligation Bond and long-term note payments are expenditures in Governmental Funds, but those payments reduce long-term liabilities in the Statement of Net Position.	
General Obligation Bond payments	\$ 810,000
Other Debt principal payments	450,093
Total	<u>\$ 1,260,093</u>
5. Internal Service Funds are utilized to account for the costs of services or supplies provided to individual funds, such as insurance, equipment, and motor pool. The net costs of the Internal Service Funds are included in the Governmental Activities in the Statement of Activities.	
Net Position Change: Insurance Reserve applicable to Governmental Funds	\$ 78,230
Net Position Change: Motor Pool applicable to Governmental Funds	161,599
Net Position Change: Equip Rental/Revolving applicable to Governmental Funds	(147,569)
Total	<u>\$ 92,260</u>
6. Some revenues and expenses reported in the Statement of Activity do not require the use of current financial resources therefore are not reported as revenues or expenditures in Governmental Funds.	
Compensated Absences not available to finance expenditures	\$ (382,060)
Interest due on long-term debt and other payables	(30,372)
Property tax levy not recognized as revenue	120,142
Other Post-Employment benefits payable not requiring resources	(198,688)
Revenue receivable not available to finance expenditures	(1,471,575)
Total	<u>\$ 1,962,553</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

All funds except Human Services Fund, Family Resource Center and Natural Resources Fund have a positive fund balance. The deficit fund balance of \$20,174 in the Human Service Fund as of December 31, 2014 recovered in 2015. The deficit fund balance of \$13,791 the Family Resource Center Fund December 31, 2014, recovered in 2015. The deficit fund balance of \$63,272 in the Natural Resources Fund as of December 31, 2014 recovered in 2015.

The 2014 annual budget was adopted on the modified accrual cash basis, which includes 2014 expenditures paid in 2014 and in January 2015 and 2013 expenditures paid after January 31, 2014. For the year ended December 31, 2014, expenditures exceeded appropriations in the following funds:

- Enhanced 911 Fund \$6,766 - The fund received 2014 invoices in January 2015 not included in the budget amendments. The over expenditure was funded by a revenue budget surplus.
- Four Springs Lake Preserve \$17,225 - The fund has depreciation expense that was not budgeted. The over expenditure was funded by available fund balance.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

GASB Statement No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires adjustments be made to the financial statements to reflect the difference between amortized cost and fair value of investments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of investments has been determined using quoted market prices, which are equivalent to market value. Island County investments are shown on the balance sheet at fair value and unrealized gain or loss is recognized based on the market value as of December 31, 2014. The fair value as of December 31, 2014 was \$318,601 below the amortized cost of the investments. The investments of fiduciary funds are also reported at fair value on the Statement of Fiduciary Net Position.

Following are the details of investments as of December 31, 2014:

Investment	Maturities	Island County Investments	Island County as Fiscal Agent	Total Investments
		Fair Value	Fair Value	
State Investment Pool	\$ 21,718,596	\$ 2,759,069	\$ 18,959,527	\$ 21,718,596
U.S. Agencies	51,200,000	50,901,955	-	50,901,955
Certificates of Deposit	4,047,000	2,407,614	1,634,950	4,042,564
Total Investments	\$ 76,965,596	\$ 56,068,638	\$ 20,594,477	\$ 76,663,115

NOTE 5 – PROPERTY TAXES

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

PROPERTY TAX CALENDAR

January 01	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property is established for next year's levy at 100% of market value.
October 31	Second installment payment is due.

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

The County may levy up to \$1.80 per \$1000 of assessed valuation for general governmental services as provided by RCW 84.52.043.. For 2014, the total was \$.65404 on an assessment valuation of \$12.054 billion. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The County is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance per RCW 84.52.043. That levy is subject to the same limitations as the levy for general government services. The county's road levy for 2014 was \$.82822 per \$1,000 on an assessed valuation of \$9.985 billion. Special levies approved by the voters are not subject to the above limitations. In 2014, the county levied an additional \$.05737 per \$1,000 for Conservation Futures.

Island County levied the following property taxes on the 2014 Levy for 2015 collection.

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	\$.65404	\$ 7,888,899
Total General Government	.65404	\$ 7,888,899
Conservation Futures	.05737	691,590
Road Levy	.82822	8,269,952
Total	\$ 1.53963	\$ 16,850,441

NOTE 6 – CAPITAL ASSETS

A. CAPITAL ASSETS

The County depreciates Capital Assets utilizing the straight-line depreciation method. The cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

Capital asset activity for the year ended December 31, 2014 comprises:

Governmental Activities	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital assets not being depreciated:				
Land	22,052,886	693,732		22,746,618
Construction in progress	6,011,985	5,302,808	(3,697,187)	7,617,606
Intangible Assets	5,297,673	53,412	(2,675)	5,348,410
Total capital assets not being depreciated	33,362,544	6,049,952	(3,699,862)	35,712,634
Capital assets being depreciated:				
Buildings	36,315,856			36,315,856
Intangible Assets	2,645,709		(29,968)	2,615,741
Improvements other than buildings	5,361,584	7,566		5,369,150
Machinery and equipment	17,954,027	1,609,991	(700,006)	18,864,012
Infrastructure	76,550,656	3,696,993		80,247,649
Total capital assets being depreciated	138,827,832	5,314,550	(729,974)	143,412,408
Less accumulated depreciation for:				
Buildings	(16,089,540)	(708,782)		(16,798,322)
Intangible Assets	(1,974,343)	(309,031)	28,361	(2,255,013)
Improvements other than buildings	(3,192,543)	(179,818)		(3,372,361)
Machinery and equipment	(12,642,499)	(942,388)	673,330	(12,911,557)
Infrastructure	(21,080,772)	(2,120,060)		(23,200,832)
Total accumulated depreciation	(54,979,697)	(4,260,079)	701,691	(58,538,085)
Net capital assets being depreciated	83,848,135	1,054,471	(28,283)	84,874,323
Governmental activities capital assets, net	117,210,679	7,104,423	(3,728,145)	120,586,957

Business-Type Activities	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital assets not being depreciated:				
Land	1,067,537			1,067,537
Total capital assets not being depreciated	1,067,537			1,067,537
Capital assets being depreciated:				
Buildings	2,455,738			2,455,738
Intangible Assets	59,096			59,096
Improvements other than buildings	4,831,489			4,831,489
Machinery and equipment	2,023,314	75,562	(82,005)	2,016,871
Total capital assets being depreciated	9,369,637	75,562	(82,005)	9,363,194
Less accumulated depreciation for:				
Buildings	(1,196,958)	(52,943)		(1,249,901)
Intangible Assets	(26,593)	(5,909)		(32,502)
Improvements other than buildings	(3,074,310)	(202,257)		(3,276,567)
Machinery and equipment	(1,392,442)	(87,930)	82,005	(1,398,367)
Total accumulated depreciation	(5,690,303)	(349,039)	82,005	(5,957,337)
Net capital assets being depreciated	3,679,334	(273,477)	0	3,405,857
Business-type activities capital assets, net	4,746,871	(273,477)	0	4,473,394

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

<u>Governmental Activities</u>	<u>Amount</u>
General Government	\$ 476,414
Public Safety	318,068
Physical Environment	5,939
Transportation	2,226,047
Economic Environment	54,061
Health and Human Services	56,495
Culture and Recreation	137,186
Internal Service Fund	985,869
Total Depreciation and Amortization– Governmental Activities	<u>\$ 4,260,079</u>

<u>Business-Type Activities</u>	<u>Amount</u>
Solid Waste	\$ 332,213
Four Springs Lake Preserve	16,826
Total Depreciation and Amortization – Business-Type Activities	<u>\$ 349,039</u>

B Collections Not Capitalized

The County has no collections that are not capitalized as of December 31, 2014.

C. Construction Commitments

The County has active construction projects as of December 31, 2014. At year-end, the government's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Various Road Projects	\$ 510,184	\$ 109,595
New County Road	\$ 711,720	\$ 417,800
Freeland Trail	\$ 196,200	\$ 0

NOTE 7 – PENSION PLANS

All Island County full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. 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 for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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 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 may legally be used to 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 Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 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. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may

elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire 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, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

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

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	368,272

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer: State Agency*	11.71%	11.71%	11.71%**
Employer: Local Government Units*	9.21%	9.21%	9.21%**
Employee: State Agency	9.76%	9.80%	7.50%***
Employee: Local Government	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** Plan 3 defined benefit portion only.

*** Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 24,513	\$ 1,261,309	\$ 214,444
2013	\$ 34,918	\$ 1,065,860	\$ 177,771
2012	\$ 31,853	\$ 909,588	\$ 158,015

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

Plan Description

LEOFF was established in 1970 by the Legislature. Membership 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 effective July 27, 2003, being an 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 members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

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.

LEOFF 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 legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit 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 benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. 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. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. 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 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 catastrophically 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 benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 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.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013.

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	1,600
Total	29,640

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. 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, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2

Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

* The employer rates include the employer administrative expense fee currently set at 0.18%

** The employer rate for ports and universities is 8.59%.

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

	LEOFF Plan 1	LEOFF Plan 2
2014	\$ 0	\$ 181,070
2013	\$ 0	\$ 128,693
2012	\$ 0	\$ 128,343

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by 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 membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

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 limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) 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, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. 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.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. 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). 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.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	4,513
Terminated Plan Members Nonvested	1,383
Total	6,058

Funding Policy

Each biennium, the state Pension Funding Council adopts 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.

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, 2014, are as follows:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

*The employer rate includes an employer administrative expense fee of 0.18%.

Both Island County and the employees made the required contributions. The County's required contributions for the year ended December 31 were as follows:

	PSERS Plan 2
2014	\$ 83,061
2013	\$ 74,346
2012	\$ 59,156

Deferred Compensation Plans

Island County offers employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under the plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or an unforeseeable emergency as defined by the Plan. Participants have a choice of three (3) independent plan administrators: Mass Mutual Financial Group; Nationwide Retirement Solutions; and the Department of Retirement Systems.

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

NOTE 8 – RISK MANAGEMENT

Island County remains one of several Washington counties that are members of the Washington Counties Risk Pool ("Pool" or "WCRP"). The others include: Adams, Benton and Chelan, Clallam, Columbia, Cowlitz and Douglas, Franklin, Garfield, Grays Harbor and Jefferson, Kittitas, Lewis, Mason and Okanogan, Pacific, Pend Oreille, San Juan and Skagit, Skamania, Spokane, Thurston and Walla Walla, Whatcom and Yakima Counties.

Clark, Kitsap, Klickitat and Whitman Counties were Pool members. Clark had its membership cancelled by the Pool's Board of Directors effective April 29, 2014. The others voluntarily terminated their memberships effective October 1st of 2010, 2002 and 2003 respectively.

Background: The Pool was "Created by Counties for Counties" in August 1988 as an association of member counties independent of all other associations of which the counties are members. WCRP's foundational agreement authorized its creation pursuant to Chapters 48.62 and 39.34, Revised Code of Washington ("RCW"), "to provide member counties programs of joint self-insurance, joint

purchasing of insurance, and joint contracting for or hiring of personnel to provide risk management, claims handling, and administrative services.”

Noteworthy is the definition of “insurer” in RCW 48.01.050 as it pertains to the application of the Washington Insurance Code (Title 48). The statutory definition reads:

Two or more local government entities, under any provision of law, that join together and organize to form an organization for the purpose of jointly self-insuring or self-funding are not an “insurer” under this code.

WCRP is not an “insurer” and thus not an insurance company or subject to the special laws and rules that govern insurers and insurance companies. Washington’s pools operate under the state’s “pooling” laws and regulations, specifically Chapters 48.62 RCW and 200-100 Washington Administrative Code (“WAC”). Pools are risk-sharing entities that initially must be approved by then annually report to and are overseen by the State Risk Manager – they are not regulated by the Office of the Insurance Commissioner. In addition, as public entities, pools are subject to annual audits by the State Auditor’s Office.

The mission for the Pool as determined by the members’ directors and alternate directors is to:

- Provide comprehensive and economical risk coverage;
- Reduce the frequency and severity of losses;
- Decrease costs incurred in the managing and litigation of claims.

The core values adopted by the Pool’s Board of Directors 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 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 Pool’s Membership Compact, added in 2000 as an addendum to the Interlocal Agreement, constitutes a commitment to strengthen the Pool by helping member counties implement and/or enhance their local risk management efforts to reduce losses and support the best management of the Pool and its resources. The Compact obligates the member counties to support these goals through three major elements – membership involvement, risk control practices, and a targeted risk management program(s).

New members may be asked to pay modest fees to cover the costs to analyze their loss data and risk profiles. In recent years, new members have only been required to contribute their proportional shares of the entry year’s assessments. New members contract under the Interlocal Agreement to remain in the Pool for at least five years. Following its initial 60-month term, any county may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files the required advance written notice. Otherwise, the Interlocal Agreement and membership automatically renews for another year. Even after termination, former members remain responsible for reassessments by the Pool for the members’ proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

Joint Self-Insurance Liability Program (“JSILP”): The Washington Counties Risk Pool has since its beginning administered the membership’s occurrence-based, jointly purchased and/or jointly self-insured liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits per occurrence have grown from the \$1 million existing during the Pool’s initial two months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million limit that has existed since October 2003. (Note: Additional \$5 million limits were available as individual county-by-county options during many recent years, including the 2013-14 and 2014-15 coverage years.)

Since the 2003-04 coverage year, the initial \$10 million per occurrence, subject to the member-reimbursed deductible, has been provided as jointly self-insured coverage that is “risk shared” amongst the membership. Each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000.

The Board of Directors has decided for years now to acquire reinsurance as further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions (“SIRs”) equal to the greater of the deductible for the member with the claim or \$100,000. More recent years’ reinsurance programs have included “corridor deductibles” with aggregated stop losses which have the effect of increasing the Pool’s SIR. For 2013-14, there were two (2) such corridors – the first raising the occurrence SIR to \$1 million, but with an aggregated stop loss of \$2.975 million (later reduced with Clark County’s termination to \$2,900,625), and the second increasing the SIR further, to \$2 million, but with an aggregated stop loss of \$650,000 (also reduced with Clark County’s departure to \$596,875). Other reinsurance agreements respond to the remaining \$8 million – one for the \$3 million excess of the \$2 million SIR, and another for the \$5 million excess of \$5 million.

The remaining \$10 million (or \$15 million) of JSILP occurrence coverage has been acquired as “following form” excess insurance. And while there are no aggregate limits to the payments that the Pool makes for any member county or for all member counties, the reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer).

584 third-party liability claims (and lawsuits) were reported by member counties to the Pool during the 2013-14 coverage year, a 5.5% reduction in year-over-year filings and a continuation of the decline in filings experienced the past several years. The new filings raised the to-date (October 1988 – September 2014) total to 19,820. Yet only 359 remained classified as ‘open’ at year-end. Projections from the required independent actuary retained by the Pool’s Board of Directors suggest another 283 cases from all years as being *incurred but not yet reported* (“IBNR”) and raise the Pool’s estimated ultimate case count (as of September 30, 2014) to 20,103. Total incurred losses (payments made plus estimates for *open* claims) increased \$14.6 million during the year to \$264.6 million. And while that represents a significant increase from recent years’ corresponding amounts, it is less than the several earlier years’ amounts of \$16.0M (2010-11), \$17.8M (2009-10), and the \$20.8M (average for 2006-07 through 2008-09).

Claims reserves for the JSILP coverage are determined annually, and the actuary’s estimates of net reserves as of September 30, 2014 totaled \$14.68 million, a modest year-over-year increase of \$0.06 million (0.4%), and included \$2.69 million for losses in the basic SIR, \$10.84 million for the increased SIRs from the “corridor” programs, \$0.13 million for losses in the quota-shared (10%) upper reinsured layer retained by the Pool during 2012-13, and \$1.02 million for unallocated loss adjustment expenses (ULAE). NOTE: Estimates for gross reserves declined \$1.10 million (3.3%) to \$32.67 million, with \$17.99 million ceded to the commercial insurers.

Washington Counties Property Program (“WCPP”): The Board of Directors agreed to add property insurance, beginning with the 2005-06 coverage year, as a county-by-county option. This optional coverage is jointly-purchased from a consortium of higher rated commercial carriers. Both participation and the total values of covered properties have nearly doubled since the WCPP was added. Twenty six counties participated in the WCPP during 2013-14 with covered properties totaling in excess of \$2.7 billion.

Losses are covered under the WCPP to the participating counties’ buildings and contents, vehicles, mobile/contractors equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes ‘All Other Perils (“AOP”)’ coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Coverage also includes sublimated items, e.g. Equipment Breakdown / Boiler & Machinery (\$100 million), Special Flood Hazard Areas (\$25 million),

and endorsements for LEED (Green Construction) Upgrades, optional Reproduction Coverage for historic structures, and Terrorism (\$20 million).

AOP occurrence deductible, which each participating county confirms each year and is solely responsible for paying, range between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

Cyber Risk and Other Coverages: Beginning this coverage year (2014-15), the Board agreed to add jointly-purchased cyber risk and security coverage from a higher-rated commercial insurer.

Other Insurances: Several member counties use the producer (broker) retained by the Board on behalf of the Pool to secure other (specialty) coverages. Examples include public officials bonds and insurance coverages for crime (and fidelity), special events/concessionaires, UST and other environmental hazards, as well as airport, ferry, and railroad operations.

Governance / Oversight: The Pool is governed by a board of directors that consists of one director (and at least one alternate director) representing each member county and appointed by the county's legislative authority. The Board of Directors, which includes both elected and appointed officials, meets three times each year with the Annual Meeting of the Pool being held mid-summer. The Board a) determines the extent of risk-sharing from the 3rd-party self-insured liability coverage by approving the JSILP Coverage Form, b) selects the reinsurance(s) to acquire and the excess insurance(s) to jointly-purchase or offer for "member option" purchase, c) approves the Pool's annual operating budget(s) and work program(s), and d) approves the formulas used for computing members' deposit assessments and, when necessary, reassessments.

Ongoing oversight of the Pool is furnished by an 11-person executive committee that is elected by and from the WCRP Board for staggered, 3-year terms. The membership of the 2014-15 committee averages more than nine years with the Pool. The committee meets throughout the year and a) approves all disbursements and reviews the Pool's financial health, b) approves case settlements exceeding the applicable member's deductible by at least \$50,000, c) reviews all claims with incurred loss estimates exceeding \$100,000, and d) evaluates the Pool's operations and program deliverables, and the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board to consider and act upon.

Staffing and Support Teams: Six of the Pool's 11-person staff handle and/or manage the several hundred liability cases filed annually upon the member counties and submitted for risk-shared coverage consideration. This includes determining coverage, establishing reserves for covered events by estimating future payments for the losses and their related claims adjustment expenses. The claims staff have 115 years of combined claims handling experience.

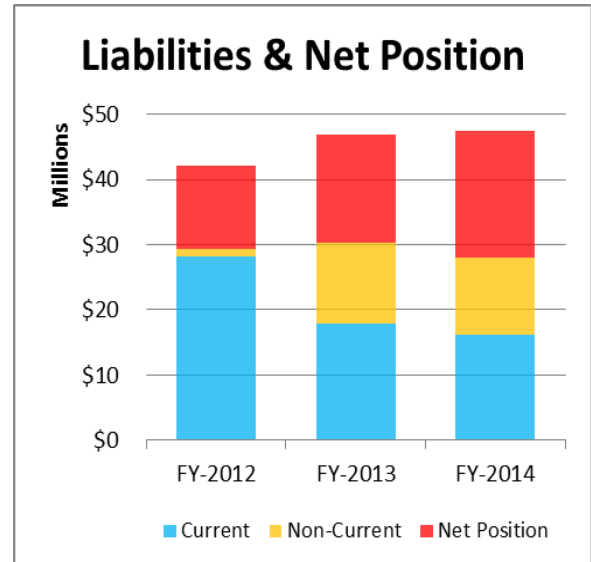
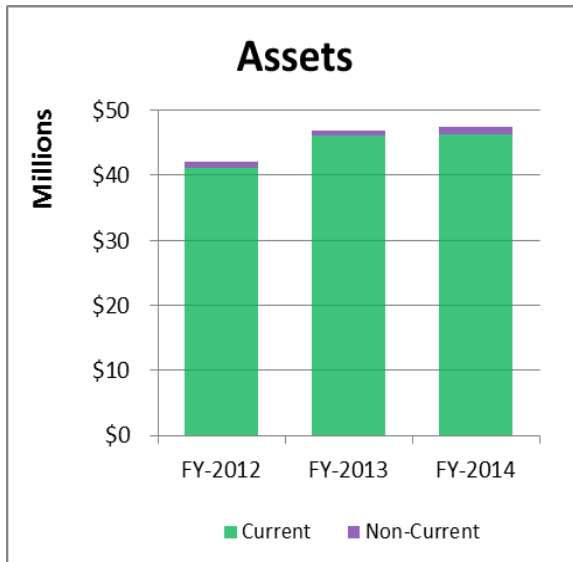
The remaining staff support the Pool's administrative needs and provide member services that include, but are not limited to assessing the memberships' risks, coordinating trainings, performing compliance audits, and developing and presenting/promoting coverages.

There are also the professionals from some of the most respected organizations worldwide which are retained by the Board to address specific needs of the Pool – PricewaterhouseCoopers, LLP furnishes independent actuarial services; Strategic Claims Direction, LLC conducts independent claims auditing; Arthur J. Gallagher Risk Management Services, Inc. provides insurance producer (broker) and advanced loss control services; and J. William Ashbaugh of Hackett Beecher & Hart serves as coverage counsel. NOTE: Claims audits are occasionally performed by commercial insurers. The numerous attorneys retained and assigned to defend covered claims as well as the State Risk Manager and State Auditor's Offices cannot be overlooked.

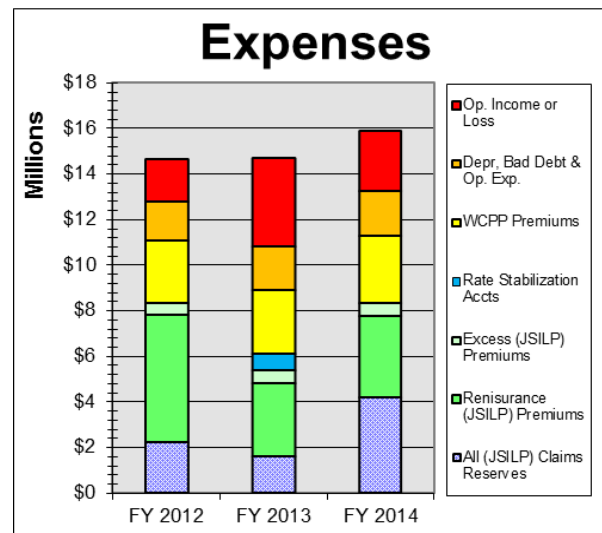
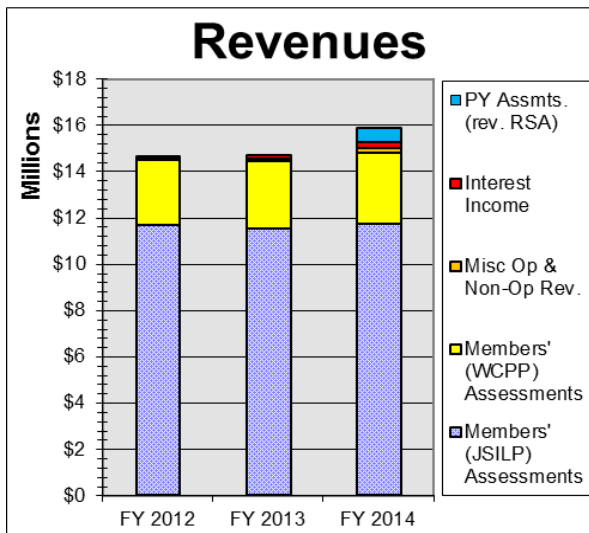
Financial Summary: During fiscal 2014, WCRP assets grew 1% (\$0.48 million) to \$47.41 million while its liabilities decreased 7% (\$2.17 million) to \$28.04 million. That produced a (assets to liabilities) ratio of 1.69:1. For comparison, the fiscal 2004 ratio was 0.94:1 which, except for the

members' reassessments receivables ("retroactive assessments") that were included, would have been 0.74:1.

Net Position, which is frequently referred to as "Net Assets" or "Owners' Equity", improved 16% (\$2.65 million) to \$19.37 million as of September 30, 2014. And since 2004 ended "negative" \$0.69 million, Net Position improved by more than \$20 million over the course of the past decade. \$1.07 million of Net Position were held in Capital Assets (net of debt), leaving \$18.30 million to both satisfy the State Risk Manager's solvency provisions (WAC 200.100.03001(3)) and substantially fulfill WCRP's own sufficiency requirements in section D.2 of the Board of Directors' Underwriting Policy.



Operating Income of \$2.38 million was realized in fiscal 2014. And though a 37% decrease from 2013, the 2014 amount was the third greatest in recent years and 55% more than the annual average from 2004 through 2013. Revenues grew \$1.05 million (7%) while Expenses increased \$2.42 million (22%), primarily due to the \$2.54 million in independent actuary adjustments to the Pool's claims-related reserves and \$0.58 million in premium increases for the reinsurance and excess liability and property insurance policies acquired.



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 of the Pool resulting from any fiscal year are financed by reassessments (aka retroactive assessments) of the deficient year's membership in proportion with the initially levied and collected deposit assessments.

The Pool's reassessments receivable balance as of December 31, 2014 was ZERO (\$0). As such, there are no known contingent liabilities at that time for disclosure by the member counties.

NOTE 9 – SHORT-TERM DEBT

The County has no short-term debt as of December 31, 2014. Current portion of the long-term debt payments are shown in Note 10.

NOTE 10 – LONG-TERM DEBT

A. Long-term Debt

The County issues General Obligation Bonds to finance the purchase of equipment and the construction of capital projects. Bonded indebtedness has also been entered into (in prior years) to advance refund several General Obligation Bonds. General Obligation Bonds that have been issued are repaid from the applicable resources. Only governmental funds have bond debt payable at December 31, 2014. Island County is also liable for State Revolving Loans, which are considered obligations of the general government and are being repaid with general governmental revenue.

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

On August 12, 2014, the 2014B Certificates of Participation (COP) were financed through the State of Washington Treasurer - Local Option Capital Asset Lending (LOCAL) program, in the amount of \$416,404, for heating, ventilation and air conditioning (HVAC) efficiency upgrades on various County facilities. The COP's are considered obligations of the general government and are being repaid with general governmental revenue.

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

General Obligation Bonds and Certificates of Participation currently outstanding are listed below:

Issue Title	Purpose	Original Amount	Interest Rate	Amount of Installment
005 Limited G.O. Bonds	Refunding part 1997A Bond Issue & Construction of Juvenile Detention Facility	\$ 7,510,000	Coupon rate of 3.0% to 4.2%	\$ 868,260
010 Limited G.O. Bonds	Advance refunding 2001 LTGO Bond Issue used for Courthouse Expansion and Juvenile Detention Facility	\$ 5,320,000	Coupon rate of 3.0% to 4.0%	\$ 283,350
2014B Certificates of Participation	Energy and HVAC Efficiency Upgrades on various County Facilities	\$ 416,404	2.12526%	\$ 52,906
			Total	\$ 1,204,516

The General Obligation Bond principal payments are due annually on December 1, and interest is due on June 1, and December 1. The Certificates of Participation principal payments are due annually on June 1, and interest is due on June 1 and December 1. The annual debt service requirements to maturity for the General Obligation Bonds and the Certificates of Participation are as listed below:

Year Ending December 31	Governmental Activities	
	Principal	Interest
015	\$ 887,908	\$ 316,607
2016	\$ 924,596	\$ 281,570
2017	\$ 996,370	\$ 244,406
2018	\$ 603,235	\$ 202,470
2019	\$ 640,196	\$ 177,910
2020-2024	\$ 3,764,098	\$ 466,232
Total	\$ 7,816,403	\$ 1,689,195

B. Revolving Fund and Other Loans

Island County had five State loans through the Washington State Department of Ecology; two of those loans were paid in full in 2014. The remaining three loans are all related to the Washington State On-Site Repair Financial Assistance Program. On-Site repair loans are payable beginning one year after the completion date, payable semi-annually for nine payments.

Project Completion Date	Original Amount	Loan Increase	Interest Rate	Balance December 31, 2014
7/01/09	\$ 302,363		0.5%	\$ 0
06/08/10	\$ 197,614		1.1%	\$ 22,406
10/31/11	\$ 147,425		1.3%	\$ 67,092
06/15/15	\$ 325,159	\$ 55,294	1.4%	\$ 380,453
11/30/01	\$ 685,543		1.5%	\$ 0
Total				\$ 469,951

The annual debt service requirements for the Washington State Department of Ecology loans are listed below:

Year Ending December 31	Principal	Interest
2015	\$ 55,734	\$ 890
2016	\$ 457,125	\$ 41,151
2017	\$ 443,550	\$ 20,633
2018	\$ 449,800	\$ 14,383
2019	\$ 456,137	\$ 8,045
2020	\$ 230,473	\$ 1,618
Total	\$ 2,092,819	\$ 86,720

The liability for compensated absences is recorded in the Government-wide Statements for all absences due as described in note 1.E.9. The amount is paid to employees when absences are taken. The estimated current amount to be paid is \$522,185 for Governmental funds and \$19,943 for Business-type funds.

NOTE 11 – LEASES

A. Operating Leases

The County leases two office buildings. One building lease is under a non-cancelable operating lease, which may be adjusted once annually to keep in line with the Consumer Price Inflation trends as reported in the Seattle "New All Urban" published by the Washington Local Government Personnel Institute of Labor Relations. That lease expires in 2016. The second building lease expires on December 31, 2015. Total costs for all such leases were \$57,014 for the year ended December 31, 2014.

Future minimum lease payments are:

Year Ending December 31	Amount
2015	\$ 58,140
2016	\$ 52,625
Total	\$ 110,765

B. Capital Leases & Other Notes Payable

At this time, Island County has no active capital leases.

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/14	Additions	Reductions	Ending Balance 12/31/14	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 8,210,000		\$ (810,000)	\$ 7,400,000	\$ 855,000
Amortization / Issuance Costs	174,473	68,558	(24,376)	218,655	24,376
Certificates of Participation		416,403		416,403	32,908
Revolving State Fund	864,749	55,295	(450,092)	469,952	55,734
Compensated Absences	3,234,558	2,464,850	(2,082,790)	3,616,618	522,185
Other Post-Employment Benefits Payable	1,272,441	271,163	(72,475)	1,471,129	72,475
Governmental Activity Long-term Liabilities:	\$13,756,221	\$ 3,276,269	\$ (4,294,733)	\$ 13,592,757	\$1,562,678
Business-Type Activities:					
Compensated Absences	\$ 152,408	\$ 132,365	\$ (130,451)	\$ 154,322	\$ 19,943
Business-type Activity Long-term Liabilities:	\$ 152,408	\$ 132,365	\$ (130,451)	\$ 154,322	\$ 19,943

Internal Service Funds predominantly serve the Governmental Funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$27,929 of Internal Service Funds compensated absences are included in the above amounts. Compensated absences for Governmental Activities are liquidated in the Governmental Fund from which the employee's salary is paid.

NOTE 13 - CONTINGENCIES & LITIGATION

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

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

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

NOTE 14 – RESTRICTED NET POSITION

The Government-wide Statement of Net Position reports \$40.9 million of restricted net position, which are restricted by enabling legislation.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund balances consist primarily of interfund vouchers accrued at December 31. Those amounts will be cleared in 2015.

Interfund transfers of \$6.1 million includes (1) budget transfers of \$1.7 million; (2) support transfers of \$3.2 million and; (3) \$1.2 million of capital improvement transfers. A schedule of interfund balances and transfers between funds is shown on the schedules on the following page.

Island County, Washington
Schedule of Interfund Balances
For the Year Ended December 31, 2014

	Due From - Governmental Activities					Due From - Business Type Activities			
	General Fund	County Road Fund	Other Governmental Funds	Internal Service Funds	Total Governmental Activities	Solid Waste	Other Business-Type Activities	Fiduciary Funds	Total Due From
Governmental Activities									
General Fund									
County Road Fund									
Other Governmental Funds			11,888		11,888				11,888
Sub Total	-	-	11,888	-	11,888	-	-	-	11,888
Business Type Activities									
Solid Waste									-
Total Due To	-	-	11,888	-	11,888	-	-	-	11,888

The Other Governmental Funds have amounts due to and due from other Governmental Funds.

Island County, Washington
Schedule of Transfers
For the Year Ended December 31, 2014

	Governmental Activities					Business Type Activities			
	General Fund	County Road Fund	Other Governmental Funds	Internal Service Funds	Total Governmental Activities	Solid Waste	Other Business-Type Activities	Total Business-Type Activities	Fiduciary Funds
Transfers In									
General Fund	(1,654,700)	(29,074)			(1,683,774)				(1,683,774)
Other Governmental Funds	(1,052,849)		(2,148,550)	(60,000)	(3,261,399)				(3,261,399)
Transfers reimb CAP/INF	(27,127)		(789,740)	(405,000)	(1,221,867)				(1,221,867)
Total Transfers In	(2,734,676)	(29,074)	(2,938,290)	(465,000)	(6,167,040)				(6,167,040)
Transfers Out									
General Fund		882,900	302,500	179,600	1,365,000	288,300	1,400	289,700	1,654,700
Other Governmental Funds	1,511,513	953,877	703,500	45,500	3,214,390	76,083		76,083	3,290,473
Transfers reimb CAP/INF	405,000	634,571	182,297		1,221,867				1,221,867
Total Transfers Out	1,916,513	2,471,348	1,188,297	225,100	5,801,257	364,383	1,400	365,783	6,167,040
Net Transfers (In) / Out	(818,163)	2,442,274	(1,749,994)	(239,900)	(365,783)	364,383	1,400	365,783	

The General Fund amounts include managerial funds which have amounts due to and from other managerial funds.

NOTE 16 – RECEIVABLE AND PAYABLE BALANCES

Governmental Activities	Business-Type Activities
------------------------------------	-------------------------------------

A. Other Receivables, Net consist of:

Court fees and fines	\$ 431,188	
Accounts receivable, customers		251,725
Cable and telephone fees	645,068	
Interest on investments and property tax	94,151	
Miscellaneous	21,880	
Total	\$ 1,192,287	\$ 251,725

B. Accounts Payable consist of:

Invoices for daily operating expenses	\$ 1,709,269	\$ 104,082
Total	\$ 1,709,269	\$ 104,082

C. Other Current Liabilities consist of:

Payroll payable	\$ 315,415	\$ 17,564
Accrued interest on debt	27,033	
IBNR claims	284,299	
Total	\$ 626,747	\$ 17,564

NOTE 17 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITPlan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of twenty years as of January 1, 2007. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The Net OPEB Obligation (NOO) of \$1,471,129 is included as a noncurrent liability on the Statement of Net Position.

Determination of Annual Required Contribution:	12/31/2014
Normal Cost at Year end	\$
Amortization of UAAL*	334,710
Annual Required Contribution (ARC)	\$ 334,710

Determination of Net OPEB Obligation (NOO)

Annual Required Contribution (ARC)	\$	334,710
Interest on Prior Year Net OPEB Obligation (NOO)		50,898
Adjustment to ARC		(114,445)
Annual OPEB Cost		271,163
Contribution Made		(72,475)
Increase In Net OPEB Obligation (NOO)	\$	198,688
Net OPEB Obligation (NOO) – Beginning of Year	\$	1,272,441
Net OPEB Obligation (NOO) – End of Year	\$	1,471,129

*Unfunded Actuarial Accrued Liability (UAAL)

Island County's OPEB costs, the percentage of OPEB cost contributed to the plan and the Net OPEB Obligation (NOO) for 2014 and the preceding five years is as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	NET OPEB Obligation
12/31/2009	\$ 267,747	34.2%	\$ 176,090
12/31/2010	\$ 227,518	36.3%	\$ 145,011
12/31/2011	\$ 231,552	33.3%	\$ 154,429
12/31/2012	\$ 197,625	38.9%	\$ 120,700
12/31/2013	\$ 293,977	25.6%	\$ 218,689
12/31/2014	\$ 271,163	26.7%	\$ 198,688

Funded Status and Funding Progress

As of January 1, 2007, the plan was 0% funded. The most recent actuarial valuation date is June 30, 2011. The funded status of the plan as of December 31, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 3,721,434
Amount Accrued as of 12/31/2014	(1,471,129)
Un-accrued Actuarial Liability	\$ 2,250,305

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

Actuarial Methods and Assumptions

We 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 (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four (4) active groupings and four (4) inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over fifteen (15) years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 18 – CLOSURE AND POST-CLOSURE CARE COSTS

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

Per the new Financial Assurance Plan conducted in 2013 by SCS Engineers, as of December 31, 2013, the estimated future liability for closure and post-closure maintenance and monitoring equipment was \$1,749,780. The future liability amount is an estimate and subject to changes resulting from inflation, deflation, technology, or changes in applicable laws or regulations. In 2014, the closure and post-closure maintenance and monitoring costs are reported to be \$1,579,218, which reflects a reduction of \$170,562, for expenses incurred in 2014. As required by Federal, State, and local regulations, cash in the amount of \$1,579,218 has been restricted and a liability recorded. The next Financial Assurance Plan review is anticipated to be performed in 2018 with subsequent reviews conducted at five (5) year intervals thereafter. The new average estimated annual maintenance and monitoring costs is \$174,978 per year for the next ten years.

ISLAND COUNTY
BUDGET COMPARISON SCHEDULE
For the Year Ended December 31, 2014

Annual appropriated budgets are adopted on the modified accrual basis of accounting at the Fund level, except in the General Fund, where the level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the Department level.

GENERAL FUND *	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$14,246,000	\$14,246,000	\$14,506,542	\$260,542
Licenses and Permits	1,026,900	1,055,900	1,144,091	88,191
Intergovernmental Revenues	1,800,500	2,142,762	3,207,877	1,065,115
Charges For Goods and Services	1,896,768	1,896,768	2,058,324	161,556
Fines and Forfeits	545,400	545,400	600,820	55,420
Miscellaneous Revenues	1,130,713	1,158,999	263,385	(895,614)
Interest	575,000	575,000	1,290,485	715,485
TOTAL REVENUES	21,221,281	21,620,829	23,071,524	1,450,695
EXPENDITURES				
General Government Services	9,160,216	8,780,287	7,858,168	922,119
Judicial	3,059,977	3,077,047	2,955,022	122,025
Security Of Persons and Property	8,499,448	9,668,558	9,447,980	220,578
Utilities and Environment	214,110	214,110	192,353	21,757
Economic Environment	1,924,244	2,018,102	1,978,931	39,171
Culture and Recreation	229,470	253,019	295,176	(42,157)
Debt Service	65,150	65,150	10,577	54,573
Other Expenditures	351,000	361,820	357,343	4,477
TOTAL EXPENDITURES	23,503,615	24,438,093	23,095,550	1,342,543
EXCESS OF REVENUES OVER EXPENDITURES	(2,282,334)	(2,817,264)	(24,026)	2,793,238
OTHER FINANCING SOURCES (USES)				
Transfers In	2,847,800	2,913,883	3,044,154	130,271
Transfers (Out)	(1,724,361)	(1,807,935)	(1,917,413)	(109,478)
TOTAL OTHER FINANCING SOURCES (USES)	1,123,439	1,105,948	1,126,741	20,793
NET CHANGE IN FUND BALANCE	(1,158,895)	(1,711,316)	1,102,715	2,814,031
BEGINNING FUND BALANCE		9,387,402	10,749,759	
ENDING FUND BALANCE		\$7,676,086	\$11,852,474	\$2,814,031

* Includes the General Fund and all the additional managerial funds that are presented in the Financial Statements

COUNTY ROAD FUND	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$8,245,200	\$8,245,200	\$8,155,563	(\$89,637)
Licenses and Permits	116,800	116,800	89,479	(27,321)
Intergovernmental Revenues	8,255,750	8,606,750	11,530,148	2,923,398
Charges For Goods and Services	166,500	166,500	1,018,647	852,147
Fines and Forfeits	1,000	1,000	0	(1,000)
Miscellaneous Revenues	10,000	10,000	3,652	(6,348)
TOTAL REVENUES	16,795,250	17,146,250	20,797,489	3,651,239
EXPENDITURES				
Transportation	14,435,896	14,782,062	10,061,378	4,720,684
Capital Outlay	535,450	535,450	5,255,314	(4,719,864)
TOTAL EXPENDITURES	14,971,346	15,317,512	15,316,692	820
EXCESS OF REVENUES OVER EXPENDITURES	1,823,904	1,828,738	5,480,797	3,652,059
OTHER FINANCING SOURCES (USES)				
Proceeds From Sale of Capital Assets	5,000	5,000	1,373	(3,627)
Other Nonrevenue's - Insurance Recovery			12,726	12,726
Transfers In		29,074	29,074	
Transfers (Out)	(2,466,517)	(2,471,351)	(2,471,348)	3
TOTAL OTHER FINANCING SOURCES (USES)	(2,461,517)	(2,437,277)	(2,428,175)	9,102
NET CHANGE IN FUND BALANCE	(637,613)	(608,539)	3,052,622	3,661,161
BEGINNING FUND BALANCE		13,108,069	13,925,325	
ENDING FUND BALANCE		\$12,499,530	\$16,977,947	\$3,661,161

Island County, Washington
OTHER POST EMPLOYMENT BENEFITS
LEOFF 1 RETIREMENT BENEFITS
AS OF DECEMBER 31, 2014

Year End	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2007	-	\$ 3,382,972	\$ 3,382,972	-	-	N/A
12/31/2008	-	\$ 3,382,972	\$ 3,382,972	-	-	N/A
12/31/2009	-	\$ 2,875,479	\$ 2,875,479	-	-	N/A
12/31/2010	-	\$ 2,770,841	\$ 2,770,841	-	-	N/A
12/31/2011	-	\$ 2,889,092	\$ 2,889,092	-	-	N/A
12/31/2012	-	\$ 2,604,534	\$ 2,604,534	-	-	N/A
12/31/2013	-	\$ 3,853,664	\$ 3,853,664	-	-	N/A
12/31/2014	-	\$ 3,721,434	\$ 3,721,434	-	-	N/A

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

Island County, Washington
REQUIRED SUPPLEMENTAL INFORMATION (RSI)

NOTE 1 – EXCESSES OF EXPENDITURES OVER APPROPRIATIONS

On a budgetary basis the expenditures presented in the Budget Comparison Schedules are less than the total amounts available for appropriation in the both the General Fund and County Road Fund.

NOTE 2 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The actuarial method used in the schedule of funding progress of Other Post Employee Benefits is disclosed in the Notes To The Financial Statements / Note 17 – Postemployment Benefits Other Than Pension Benefit.

Island County, Washington
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures		Total	Note
				From Pass-Through Awards	From Direct Awards		
Child Nutrition Cluster							
Food and Nutrition Service, Department of Agriculture (via WA State Superintendent of Public Instruction)	School Breakfast Program	10.553	MOU	3,141	-	3,141	
Food and Nutrition Service, Department of Agriculture (via WA State Superintendent of Public Instruction)	National School Lunch Program	10.555	MOU	5,227	-	5,227	
Total Child Nutrition Cluster:				8,368	-	8,368	
Drinking Water State Revolving Fund Cluster							
Office of Water, Environmental Protection Agency (via WA State Dept. of Ecology)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C16886	16,750	-	16,750	
Total Drinking Water State Revolving Fund Cluster:				16,750	-	16,750	
Highway Planning and Construction Cluster							
Federal Highway Administration (FHWS), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-6115	39,157	-	39,157	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-7002	113,485	-	113,485	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-7003	488,239	-	488,239	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-7350	9,832	-	9,832	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-7470	353,332	-	353,332	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-7538	31,166	-	31,166	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-7635	164,562	-	164,562	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-7968	474,881	-	474,881	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-8056	5,792	-	5,792	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-8093	146,605	-	146,605	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-8094	198,822	-	198,822	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Note
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-8103	54,085	-	54,085	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-8420	347,593	-	347,593	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	LA-8429	2,784	-	2,784	
Federal Highway Administration (FHWA), Department of Transportation (via WA State Dept. of Transportation)	Highway Planning and Construction	20.205	Skagit Council	40,000	-	40,000	
Total Highway Planning and Construction Cluster:				2,470,334	-	2,470,334	
Highway Safety Cluster							
National Highway Traffic Safety Administration (NHTSA), Department of Transportation (via WA Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	MOU	12,028	-	12,028	
Total Highway Safety Cluster:				12,028	-	12,028	
Medicaid Cluster							
Centers For Medicare and Medicaid Services, Department of Health And Human Services (via WA State Dept. of Social & Health Services)	Medical Assistance Program	93.778	1163-32540	67,500	-	67,500	
Centers For Medicare and Medicaid Services, Department of Health And Human Services (via WA State Dept. of Social & Health Services)	Medical Assistance Program	93.778	K761	9,800	-	9,800	
Total Medicaid Cluster:				77,300	-	77,300	
Other Programs							
Food and Nutrition Service, Department of Agriculture (via WA State Dept. of Health)	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C16886	208,955	-	208,955	
National Oceanic and Atmospheric Administration (NOAA), Department of Commerce (via WA State Dept. of Ecology)	Coastal Zone Management Administration Awards	11.419	SEANWS-2014- IsCoPH-00002	876	-	876	
National Oceanic and Atmospheric Administration (NOAA), Department of Commerce (via WA State Recreation and Conservation Office Salmon Recovery Board)	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	13-1364P	45,777	-	45,777	
National Oceanic and Atmospheric Administration (NOAA), Department of Commerce (via WA State Recreation and Conservation Office Salmon Recovery Board)	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	12-12960P	50,060	-	50,060	
Total CFDA 11.438:				95,837	-	95,837	
Drug Enforcement Administration, Department of Justice (via WA State Patrol)	Law Enforcement Assistance Narcotics and Dangerous Drugs Laboratory Analysis	16.001	C110849FED (new C141436FED)	997	-	997	
Bureau of Justice Statistics, Department of Justice (via WA State Patrol)	National Criminal History Improvement Program (NCHIP)	16.554	K10491	19,873	-	19,873	
ARRA Violence Against Women Office, Department of Justice (via Office of Crime Victims Advocacy)	Violence Against Women Formula Grants	16.588	F09-31103-056	7,723	-	7,723	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Note
ARRA Violence Against Women Office, Department of Justice (via Office of Crime Victims Advocacy)	Violence Against Women Formula Grants	16.588	F12-31103-048	7,240	-	7,240	
			Total CFDA 16.588:	14,963	-	14,963	
Bureau of Justice Assistance, Department of Justice	Bulletproof Vest Partnership Program	16.607	ID04025006	-	5,178	5,178	
Office of Juvenile Justice and Delinquency Prevention, Department of Justice (via WA State Dept. of Social & Health Services)	Enforcing Underage Drinking Laws Program	16.727	1163-27304	1,321	-	1,321	
Region 10, Environmental Protection Agency (via Northwest Straits Marine Conservation Fund)	Puget Sound Action Agenda Outreach, Education and Stewardship Support Program	66.122	12-940	1,059	-	1,059	
Region 10, Environmental Protection Agency (via WA State Dept. of Health)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	C16886	190,793	-	190,793	
Region 10, Environmental Protection Agency (via WA State Puget Sound Partnership)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	2013-49	63,090	-	63,090	
Region 10, Environmental Protection Agency (via WA State Puget Sound Partnership)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	2015-01	23,546	-	23,546	
Region 10, Environmental Protection Agency (via WA State Puget Sound Partnership)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	12-63401-010	117,470	-	117,470	
Region 10, Environmental Protection Agency (via WA State Puget Sound Partnership)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	G1200436	13,000	-	13,000	
Region 10, Environmental Protection Agency (via WA State Dept. of Ecology)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	DNR-01-2013	8,966	-	8,966	
			Total CFDA 66.123:	416,865	-	416,865	
Office of Water, Environmental Protection Agency (via WA State Dept. of Ecology)	National Estuary Program	66.456	G1400459	63,345	-	63,345	
Office of Water, Environmental Protection Agency (via WA State Dept. of Ecology)	National Estuary Program	66.456	SEANWS-2014- IsCoPH-00002	10,076	-	10,076	
			Total CFDA 66.456:	73,421	-	73,421	
Office of Water, Environmental Protection Agency (via WA State Dept. of Ecology)	Nonpoint Source Implementation Grants	66.460	G1200280	36,501	-	36,501	
U.S. Election Assistance Commission (via WA Secretary of State)	Help America Vote Act Requirements Payments	90.401	G2840 7A/7B	1,492	-	1,492	
Office of The Secretary, Department of Health and Human Services (via National Assoc. of County and City Health Officials)	Medical Reserve Corps Small Grant Program	93.008	MRC-0441	3,500	-	3,500	
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	Public Health Emergency Preparedness	93.069	C16886	27,310	-	27,310	
Substance Abuse and Mental Health Services Administration, Department of Health and Human Services (via WA State Dept. of Health)	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1363-89950	49,881	-	49,881	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Note
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	Immunization Cooperative Agreements	93.268	C14949	5,828	-	5,828	2
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	Immunization Cooperative Agreements	93.268	C16886	2,145	-	2,145	
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	Immunization Cooperative Agreements	93.268	C16886	6,500	-	6,500	
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	Immunization Cooperative Agreements	93.268	C16886	2,986	-	2,986	
Total CFDA 93.268:				17,459	-	17,459	
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	201402012	7,368	-	7,368	
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	PPHF National Public Health Improvement Initiative	93.507	C16886	9,590	-	9,590	
Administration For Children and Families, Department of Health and Human Services (via WA State Dept. of Social & Health Services)	Child Support Enforcement	93.563	75-1501-0-1-609	31,182	-	31,182	
Administration For Children and Families, Department of Health and Human Services (via WA State Dept. of Social & Health Services)	Child Support Enforcement	93.563	1463-99065	53,037	-	53,037	
Administration For Children and Families, Department of Health and Human Services (via WA State Dept. of Social & Health Services)	Child Support Enforcement	93.563	0763-015706	3,004	-	3,004	
Total CFDA 93.563:				87,223	-	87,223	
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Health)	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	93.733	C16886	6,468	-	6,468	
Substance Abuse and Mental Health Services Administration, Department of Health and Human Services (via North Sound Mental Health Services Admin)	Block Grants for Community Mental Health Services	93.958	MHBG-13-15	190,966	-	190,966	
Substance Abuse and Mental Health Services Administration, Department of Health and Human Services (via WA State Dept. of Social & Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27304	61,618	-	61,618	
Centers For Disease Control and Prevention, Department of Health and Human Services (via WA State Dept. of Social & Health Services)	Preventive Health and Health Services Block Grant	93.991	201402012	26,741	-	26,741	
Health Resources and Services Administration, Department of Health and Human Services (via WA State Dept. of Social & Health Services)	Maternal and Child Health Services Block Grant to the States	93.994	C16886	48,448	-	48,448	
Department of Homeland Security (via WA State Parks and Recreation Commission)	Boating Safety Financial Assistance	97.012	2009-37	9,574	-	9,574	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Note
Department of Homeland Security (via WA State Military Department)	Hazard Mitigation Grant	97.039	E-13-021	96,187	-	96,187	
Department of Homeland Security (via WA State Military Department)	Emergency Management Performance Grants	97.042	E14-167	38,414	-	38,414	
Department of Homeland Security (via WA State Military Department)	Homeland Security Grant Program	97.067	E12-186	69,877	-	69,877	3
Department of Homeland Security (via WA State Military Department)	Homeland Security Grant Program	97.067	E13-237	33,916	-	33,916	
Department of Homeland Security (via WA State Military Department)	Homeland Security Grant Program	97.067	E13-152	29,283	-	29,283	
Department of Homeland Security (via WA State Military Department)	Homeland Security Grant Program	97.067	E14-075	7,225	-	7,225	
Department of Homeland Security (via WA State Military Department)	Homeland Security Grant Program	97.067	E14-222	139,540	-	139,540	
Total CFDA 97.067:				279,840	-	279,840	
SNAP Cluster							
Food and Nutrition Service, Department of Agriculture (via WA State Dept. of Health)	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	C16886	11,166	-	11,166	
Total SNAP Cluster:				11,166	-	11,166	
Total Federal Awards Expended:				4,428,695	5,178	4,433,873	

The accompanying notes are an integral part of this statement.

ISLAND COUNTY, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2- NONCASH AWARDS - VACCINATIONS

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

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the amount expended for this program is \$4,245.17 that was passed through to Island County Sheriff, Oak Harbor Police Department, Coupeville Marshal, Langley Police Department, and Oak Harbor Fire High Risk Entry Team.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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