



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report Island County

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

**Published September 29, 2016**

**Report No. 1017679**





## Washington State Auditor's Office

September 29, 2016

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,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Island County January 1, 2015 through December 31, 2015

#### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Island County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

##### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### Internal Control over Financial Reporting:

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

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

##### Federal Awards

##### Internal Control over Major Programs:

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

We issued an unmodified opinion on the County’s compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
66.123	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The County qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

See finding 2015-001.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Island County January 1, 2015 through December 31, 2015

#### **2015-001    The County did not have adequate internal controls in place to ensure accurate reporting of its financial statements.**

##### ***Background***

The County is responsible for designing and implementing internal controls to ensure that its financial statements, notes and required schedules are prepared and fairly presented in accordance with General Accepted Accounting Principles (GAAP), Government Accounting Standards Board (GASB) and provide reasonable assurance regarding the reliability of those statements.

##### ***Description of Condition***

During our audit, we found that County management did not dedicate the necessary time and resources to properly implement GASB Statement No. 68 *Accounting and Reporting for Pensions*.

We found errors that represent a significant deficiency in internal controls over financial reporting.

##### ***Cause of Condition***

While the County did take steps to better understand the impact of the GASB standard including ongoing discussions and use of resources provided by the State Auditor's Office Local Government Support Team. Staff charged with preparing and reviewing the journal entries, financial statements, and schedules did not have adequate knowledge of GASB 68. Therefore, the County's established controls for financial statement preparation review were not effective in identifying the errors resulting from GASB 68 implementation.

##### ***Effect of Condition***

Our audit identified the following errors in the financial statements and schedules provided for audit:

- Ending net position was overstated by \$14,554,220 due to incorrect journal entries for reporting the adjustment in beginning net position, net pension assets, and deferred outflows and inflows as required by Governmental

Accounting Standards Board (GASB) 68 – Accounting and Reporting for Pensions. The County subsequently corrected this error.

- The Schedule of Employer Contributions and Schedule of Proportionate Change in Net Pension Liability were not prepared as required by GASB 68. The County took steps to address this item, however not all required schedules were prepared.

### ***Recommendation***

We recommend that the County dedicate the necessary time and resources to ensure that employees with responsibility over financial reporting improve their understanding of GAAP reporting requirements and perform a thorough review of the financial statements to identify errors, inconsistencies, and omissions.

### ***County's Response***

*Island County acknowledges the prior period adjustment of \$14,751,128 was not reflected accurately on the Financial Statements that were submitted only to the State Auditor's Office by the May 2016 deadline. The prior period adjustment was required due to the new Governmental Accounting Standards Board (GASB) Statement No. 68 – Accounting and Financial Reporting for Pensions.*

*The adjustment does not represent any theft of money; or loss of tax payer revenue; or unauthorized expenditures; or a reduction of cash; or a reduction fund balance. The adjustment reflects the actuarially derived obligation associated with providing retirement pension benefits to employees.*

*Island County did correct the Financial Statements accordingly.*

*Island County strives for financial reports that are both transparent and accurate. Island County believes we dedicated extensive time and resources as well as preparation assistance from the State Auditor's Office, towards the understanding and preparation of the Governmental Accounting Standards Board (GASB) Statement No. 68 reporting requirements.*

*The Governmental Accounting Standards Board (GASB) issued Statement No. 68 Accounting and Financial Reporting for Pensions, a new pension reporting requirement for employers effective June 1, 2015. Island County utilized the worksheet provided by the State Auditor's Office to develop the amounts required for the general ledger entries to support this highly complex GASB 68 Statement requirement. Island County also sent the completed worksheet and all the backup documents to the State Auditor's office for review. The County did receive confirmation from the State Auditor's office that the amounts on the worksheet were correct, therefore the entries were posted to the Island County general ledger.*

*Island County did have concerns regarding the required prior year adjustments and posting those adjustments into the current General Ledger. Therefore, in March 2016, the County again reached out to the State Auditor's Office requesting if they could provide a company name or professional help who has GASB 68 knowledge and could assist with the actual prior period general ledger adjustment requirement. The State Auditor's Office replied that they were in the process of also learning the requirements of GASB 68 and at that time they could not provide a name of a company or a person who could assist. They recommended that we proceed and file the financial statements with the State Auditor's Office by the May deadline and then discuss our concerns with the State Audit team when they arrive in August.*

*When the new State audit team arrived they mentioned they had copies of all the documents and emails Island County had exchanged with their office regarding our concerns with GASB 68 reporting requirements. The State audit team then proceeded to review the amounts on the confirmation worksheet and stated that some of the amounts on the worksheet were in fact not accurate. The audit team stated that the amounts the County developed for Liabilities, Outflows, and Inflows were accurate, although the Net Pension Asset was not correct and the prior period adjustment of \$14,751,128 should have been reported as a separate line item on the Statement of Activities.*

*The County corrected all the general ledger entries, updated the Financial Statements and included a separate line item on the Statement of Activities showing the prior period adjustment of \$14,751,128.*

*The County has also documented the procedures related to the implementation of this new standard and will strive to get outside professional training and assistance to ensure this standard is correctly reflected in all future Financial Statements.*

*Island County appreciates the efforts, assistance, and recommendations of the State Auditor's Office. Island County is committed to ongoing quality improvement and will strive to provide adequate staff training, and seek outside professional technical guidance to ensure accurate and timing preparation, review and reporting of the Financial Statements.*

### ***Auditor's Remarks***

We appreciate the County's commitment to resolve the finding and thank the County for its cooperation and assistance during the audit. We will review the corrective action taken during the next audit.



## ***Applicable Laws and Regulations***

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 115, as follows:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

*Budgeting, Accounting and Reporting System (BARS) Manual*, Accounting, Accounting Principles and General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the

governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

*Governmental Accounting Standards Board Statement No. 68 – Accounting and Financial Reporting Pensions*, states in part:

48. A liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The employer's proportionate share of the collective net pension liability should be measured by:

a. Determining the employer's proportion—a measure of the proportionate relationship of (1) the employer (and, to the extent associated with the employer, nonemployer contributing entities, if any, that provide support for the employer but that are not in a special funding situation) to (2) all employers and all nonemployer contributing entities. The basis for the employer's proportion should be consistent with the manner in which contributions to the pension plan, excluding those to separately finance specific liabilities of an individual employer to the pension plan, are determined. The use of the employer's projected long-term contribution effort to the pension plan (including that of nonemployer contributing entities that provide support for the employer but that are not in a special funding situation) as compared to the total projected long-term contribution effort of all employers and all nonemployer contributing entities to determine the employer's proportion is encouraged.

b. Multiplying the collective net pension liability (determined in conformity with paragraphs 59–70) by the employer's proportion calculated in (a).

49. To the extent that different contribution rates are assessed based on separate relationships that constitute the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or groups of employees), the determination of

the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships.

50. The employer's proportion should be established as of the measurement date, unless the employer's proportion is actuarially determined, in which case a proportion established at the date of the actuarial valuation used to determine the collective net pension liability may be used.

51. Whether pensions are provided through cost-sharing, single-employer, or agent pension plans, liabilities for net pension liabilities associated with different pension plans may be displayed in the aggregate, and assets for net pension assets associated with different pension plans may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

74. The total (aggregate for all pensions, whether provided through cost sharing, single-employer, or agent pension plans) of the employer's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements.

75. The information identified in paragraphs 76–80 should be disclosed for benefits provided through each cost-sharing pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

81. The required supplementary information identified in subparagraphs (a) and (b), as applicable, should be presented separately for each cost-sharing pension plan through which pensions are provided. The information indicated in subparagraph (a) should be determined as of the measurement date of the collective net pension liability. The information in subparagraph (b) should be determined as of the employer's most recent fiscal year-end.

a. A 10-year schedule presenting the following for each year:

(1) If the employer does not have a special funding situation:

(a) The employer's proportion (percentage) of the collective net pension liability

(b) The employer's proportionate share (amount) of the collective net pension liability (c) The employer's covered-employee payroll

(d) The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll

(e) The pension plan's fiduciary net position as a percentage of the total pension liability.

(2) If the employer has a special funding situation:

(a) The employer's proportion (percentage) of the collective net pension liability

(b) The employer's proportionate share (amount) of the collective net pension liability

(c) The portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer

(d) The total of (b) and (c)

(e) The employer's covered-employee payroll

(f) The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll

(g) The pension plan's fiduciary net position as a percentage of the total pension liability.

b. If the contribution requirements of the employer are statutorily or contractually established, a 10-year schedule presenting the following for each year:

(1) The statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.

(2) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.

(3) The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.

(4) The employer's covered-employee payroll.

(5) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll.

**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, 2015 through December 31, 2015**

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, 2015, 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 27, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the County implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The County has omitted the pension plan information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

**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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 that we consider to be a significant deficiency.

## **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*.

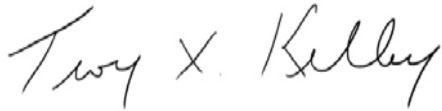
## **COUNTY'S RESPONSE TO FINDINGS**

The County's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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.

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TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 27, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**Island County  
January 1, 2015 through December 31, 2015**

Board of Commissioners  
Island County  
Coupeville, Washington

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

We have audited the compliance of Island County, Island County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2015. The County's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2015.

### **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 the Uniform Guidance, 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.

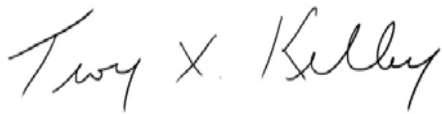
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 27, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Island County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 24.

#### 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, 2015, 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.

## **Matters of Emphasis**

As discussed in Note 19 to the financial statements, in 2015, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 25 through 40, budgetary comparison information on page 85, and information on postemployment benefits other than pensions on page 86 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 (GASB) 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. Management has omitted the pension plan information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB 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. Our opinion on the basic financial statements is not affected by this missing information.

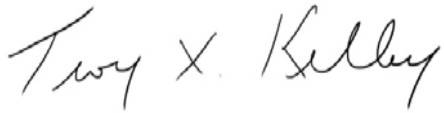
### ***Supplementary and Other Information***

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 27, 2016 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 27, 2016

## **FINANCIAL SECTION**

### **Island County January 1, 2015 through December 31, 2015**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –  
2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balance to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Information – 2015

Other Post-Employment Benefits – LEOFF 1 Retirement Benefits – 2015

Notes to Required Supplementary Information – 2015

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Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015



## **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, 2015. 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 \$3.8 million (8.1%) to \$51.9 million compared to \$48.1 million for the prior year.
- The County's total Net Position on December 31, 2015, was \$166.2 million compared to \$171.5 million on December 31, 2014. This represents an overall decrease of \$14.7 million due to the restatement of the January 1, 2015 beginning balances attributable to the implementation of the Government Accounting Standards Board (GASB), Statement No. 68, "Accounting and Financial Reporting for Pensions". Statement No. 68 establishes standards for measuring and recognizing pension liabilities. The restatement of the beginning balances was \$14.4 million for Governmental Activities and \$375 thousand for 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.

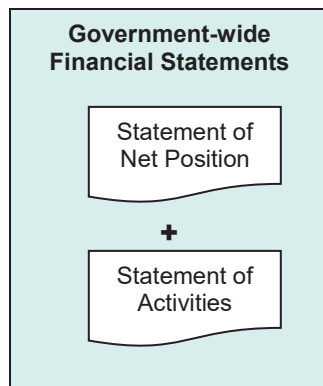
The diagram below outlines the major features of both the Government-wide and Fund Financial Statements.

	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
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Park Facility Management	To account for the administration, operation, maintenance and capital improvements of County owned parks and habitat conservation areas.
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*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 \$166.2 million on December 31, 2015, compared to the prior year of \$171.5 on December 31, 2014. This represents a 3.1% decrease. The Net Position decreased by approximately \$5.3 million in governmental activities; while those from business-type activities decreased by \$ 84 thousand. This decrease is the result of the implementation of GASB 68 and the resulting net pension liability.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**NET POSITION**

**December 31, 2015**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>						
Current and Other Assets	60,947,731	57,389,843	7,535,483	7,194,767	68,483,214	64,584,610
Capital Assets	123,420,342	120,586,961	4,282,308	4,473,398	127,702,650	125,060,359
Net Pension Asset	1,457,321				1,457,321	
<b>TOTAL ASSETS</b>	<b>185,825,394</b>	<b>177,976,804</b>	<b>11,817,791</b>	<b>11,668,165</b>	<b>197,643,185</b>	<b>189,644,969</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	2,068,087		72,928		2,141,015	
<b>LIABILITIES</b>						
Other Liabilities	2,719,965	2,556,246	225,460	201,189	2,945,425	2,757,435
Non-Current Liabilities	25,888,965	13,592,757	1,903,209	1,713,598	27,792,174	15,306,355
<b>TOTAL LIABILITIES</b>	<b>28,608,930</b>	<b>16,149,003</b>	<b>2,128,669</b>	<b>1,914,787</b>	<b>30,737,599</b>	<b>18,063,790</b>
<b>DEFERRED INFLOW OF RESOURCES</b>	2,714,428		92,802		2,807,230	
<b>NET POSITION</b>						
Investment in Capital Assets	118,652,756	113,306,466	4,282,308	4,473,398	122,935,064	117,779,864
Restricted	33,137,544	40,924,015			33,137,544	40,924,015
Unrestricted	4,779,823	7,597,320	5,386,940	5,279,980	10,166,763	12,877,300
<b>TOTAL NET POSITION</b>	<b>156,570,123</b>	<b>161,827,801</b>	<b>9,669,248</b>	<b>9,753,378</b>	<b>166,239,371</b>	<b>171,581,179</b>

The largest portion of the County's net position reflects the \$122.9 million (73.9%) 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 \$5.1 million over the prior year end balance of \$117.7 million and reflects the Glendale Tract Easement, acquisition and land donation of \$ 185 thousand. 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 \$33.1 million (19.9%) and represents resources that are subject to external restrictions as to how they may be utilized. On December 31, 2015, 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, 2015**

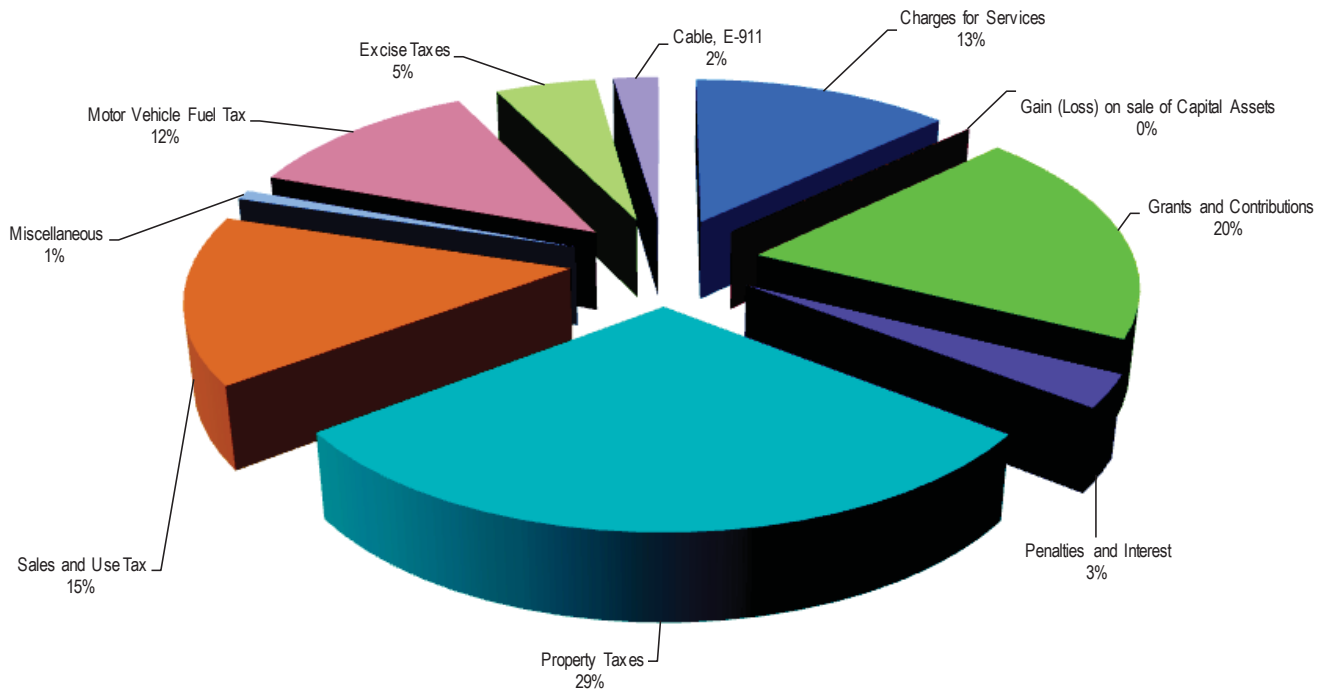
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>REVENUES</b>						
<i>Program Revenue</i>						
Charges for Services	7,654,509	8,496,845	6,669,168	6,220,728	14,323,677	14,717,573
Operating Grants & Contributions	8,765,738	8,085,333	188,473	43,936	8,954,211	8,129,269
Capital Grants & Contributions	2,660,953	1,728,272			2,660,953	1,728,272
Total Program Revenue	19,081,200	18,310,450	6,857,641	6,264,664	25,938,841	24,575,114
<i>General Revenue</i>						
Property Taxes	17,239,240	16,753,843			17,239,240	16,753,843
Sales / Use Taxes	8,818,323	7,873,945			8,818,323	7,873,945
MMFT / Excise	10,035,666	9,210,027			10,035,666	9,210,027
Penalties and Interest	1,717,361	2,222,519	5,348	2,986	1,722,709	2,225,505
Other	1,867,990	1,820,190		16,814	1,867,990	1,837,004
Total General Revenue	39,678,580	37,880,524	5,348	19,800	39,683,928	37,900,324
<b>TOTAL REVENUES</b>	<b>58,759,780</b>	<b>56,190,974</b>	<b>6,862,989</b>	<b>6,284,464</b>	<b>65,622,769</b>	<b>62,475,438</b>
<b>EXPENSES</b>						
General Government	9,573,427	8,884,386			9,573,427	8,884,386
Judicial	3,439,103	3,642,174			3,439,103	3,642,174
Public Safety	12,396,778	12,027,526			12,396,778	12,027,526
Physical Environment	3,254,622	2,208,530	6,083,814	5,288,750	9,338,436	7,497,280
Transportation	11,336,097	12,006,258			11,336,097	12,006,258
Health and Human Services	4,804,498	5,078,224			4,804,498	5,078,224
Economic Environment	3,167,951	3,031,148			3,167,951	3,031,148
Culture and Recreation	1,715,927	1,201,722	63,620	55,852	1,779,547	1,257,574
Interest on Long-Term Debt	377,612	376,189			377,612	376,189
<b>TOTAL EXPENSES</b>	<b>50,066,015</b>	<b>48,456,157</b>	<b>6,147,434</b>	<b>5,344,602</b>	<b>56,213,449</b>	<b>53,800,759</b>
<b>Excess Before Transfers</b>	<b>8,693,765</b>	<b>7,734,817</b>	<b>715,555</b>	<b>939,862</b>	<b>9,409,320</b>	<b>8,674,679</b>
Transfers In (Out)	424,995	365,783	(424,995)	(365,783)		
<b>CHANGE IN NET POSITION</b>	<b>9,118,760</b>	<b>8,100,600</b>	<b>290,560</b>	<b>574,079</b>	<b>9,409,320</b>	<b>8,674,679</b>
Net Position - January 1,	161,827,801	153,727,201	9,753,378	9,179,299	171,581,179	162,906,500
Net Position - January 1, Restated	(14,376,438)		(374,690)		(14,751,128)	
<b>NET POSITION, DECEMBER 31,</b>	<b>156,570,123</b>	<b>161,827,801</b>	<b>9,669,248</b>	<b>9,753,378</b>	<b>166,239,371</b>	<b>171,581,179</b>

**Analysis of the Changes in Net Position**

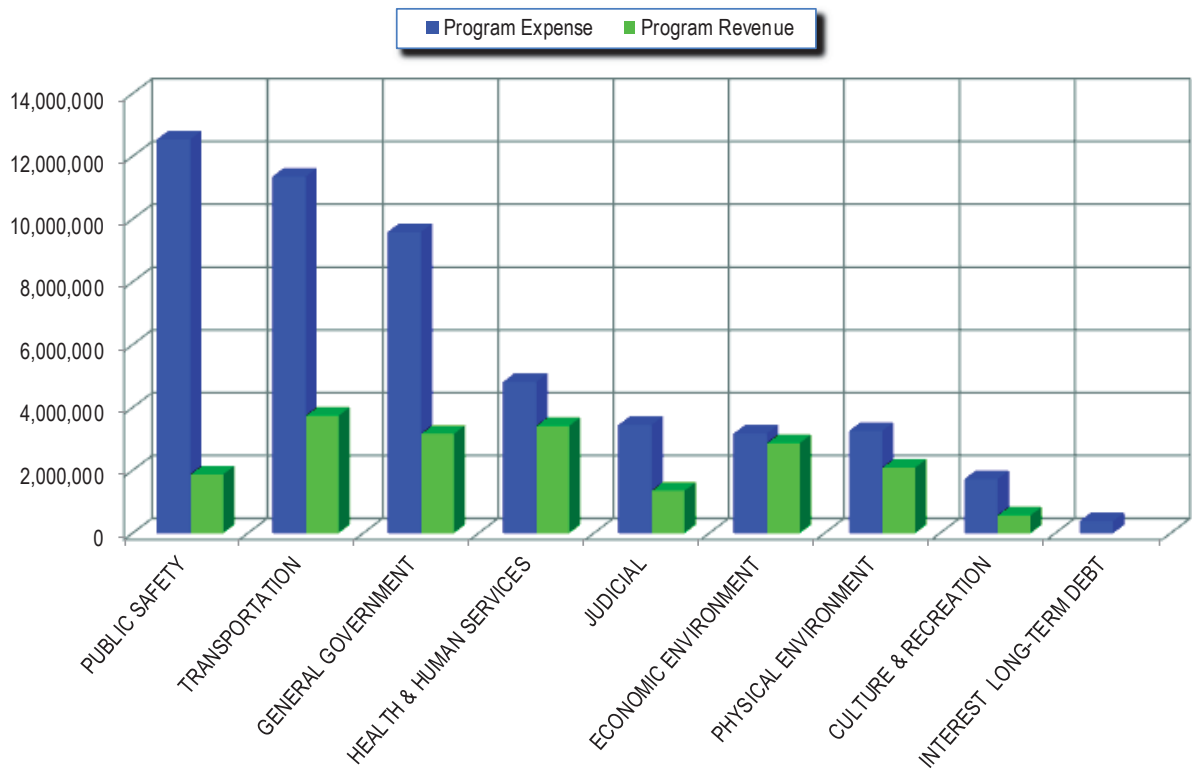
As shown on the table above revenue increased overall by \$3.1 million (5.0%) and expenses increased overall by \$ 2.4 million (4.5%).

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 Change In Net Position by \$1.0 million to \$9.1 million, compared to \$8.1 million in 2014. Key factors contributing to the variance from the prior year are listed below:

Overall, Governmental Activity revenue increased by \$ 2.6 million in the following categories:

Revenue Increases:

- \$ 944 thousand in Sales/Use Tax revenue
- \$ 933 thousand in Capital Grants and Contributions
- \$ 826 thousand in Motor Vehicle Fuel and Excise Tax
- \$ 680 thousand in Operating Grants and Contributions
- \$ 485 thousand in Property Taxes
- \$ 48 thousand in Other

Revenue Decreases:

- \$ 842 thousand in Charges for Services
- \$ 505 thousand in Penalties and Interest

Overall, Governmental Activity expenses increased by \$1.6 million in the following categories:

Expenditure Increases:

- \$ 1.0 million in Physical Environment
- \$ 689 thousand General Government
- \$ 514 thousand in Culture and Recreation
- \$ 369 thousand in Public Safety
- \$ 137 thousand in Economic Environment

Expenditure Decreases:

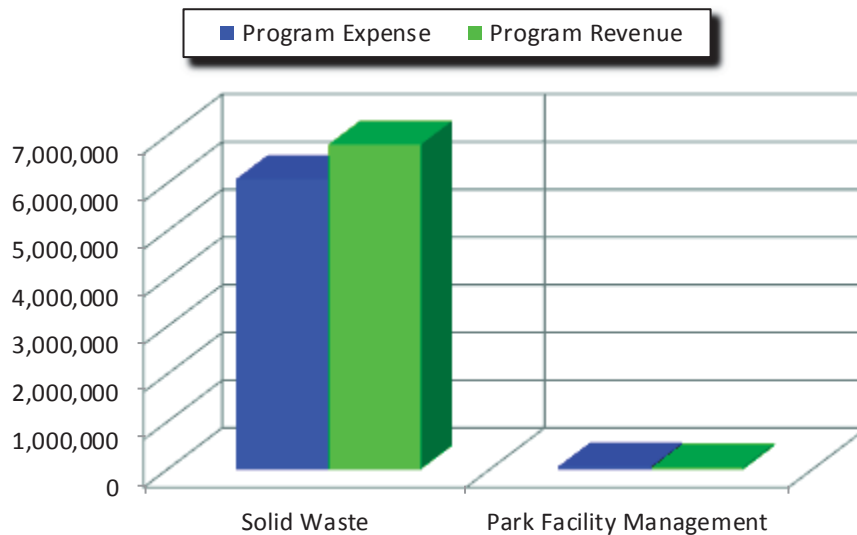
- \$ 670 thousand in Transportation
- \$ 274 thousand in Health and Human Services
- \$ 203 thousand in Judicial

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 twenty nine percent (29.3%); followed by Grants and Contributions with twenty percent (19.5%); Sales and Use Tax with fifteen percent (15.0%); Motor Vehicle Fuel Tax at twelve percent (12.0%); Excise Tax at five percent (5.1%); Penalties and Interest at three percent (2.9%) and Cable, E-911 at two percent (2.2%).

As shown on the previous chart Public Safety has the largest program expenses at twenty five percent (24.8%); followed by Transportation at twenty three percent (22.6%); General Government at nineteen percent (19.1%); Health and Human Services at ten percent (9.6%); Judicial at seven percent (6.9%); Economic Environment at six percent (6.3%); Physical Environment at six percent (6.5%); and Culture and Recreation at three percent (3.4%).



**Business-type Activities**  
**PROGRAM EXPENSES AND PROGRAM REVENUES**



Business-type Activities decreased the County's Change In Net Position by \$ 283 thousand to \$290 thousand compared to \$574 thousand in 2014. Key factors contributing to the variance from the prior year are as follows:

- Overall, revenues exceeded expenditures by \$715 thousand, and includes the book entry reduction of \$155 thousand in expense per the County Sanitary Landfill Post-closure financial assurance plan. (see Note 18)
- Business-type Activities revenue increased by \$578 thousand, and actual expenses increased by \$803 thousand compared to those in the prior year.
- Solid Waste charges for service revenue increased by \$448 thousand (7.2%) 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 (99.0%); followed by Park Facility Management with one percent (1.0%).

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 five thousand dollars (\$5,348) which is an increase of \$2,362 dollars from interest received in 2014, and reflects the current economic investment environment.

## 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.

### 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, 2015 and the previous year end of December 31, 2014.

<b>Governmental Funds</b>								
<b>COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE</b>								
	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balance		Ending Fund Balances	
	2015	2014	2015	2014	2015	2014	2015	2014
Governmental Funds	28,090,211	26,115,677	26,761,916	25,012,963	1,328,295	1,102,714	13,180,768	11,852,473
County Road Fund	18,810,051	20,840,662	15,890,259	17,788,040	2,919,792	3,052,622	19,897,738	16,977,946
Special Revenue Funds	19,658,385	17,012,378	20,018,155	15,514,122	-359,770	1,498,256	18,905,877	19,265,647
Total	66,558,647	63,968,717	62,670,330	58,315,125	3,888,317	5,653,592	51,984,383	48,096,066

The Fund Balance for Governmental Funds was \$13.1 million, showing an increase of \$1.3 million dollars over the prior year end balance of \$11.8 million. The County Road Fund was \$19.8 million, showing an increase of \$2.9 million over the prior year end balance of \$16.9 million. Special Revenue Funds had a combined ending Fund Balance of \$18.9 million, a decrease of \$359 thousand over the prior year ending balance of \$19.2 million.

The following table provides a comparison of the General Fund Revenues and Expenditures and year-end balance on December 31, 2015, and the prior year end balance on December 31, 2014.

### 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 2015 and the previous year end, 2014. 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
	2015	2014		
<b>REVENUES</b>				
Property Taxes	7,810,925	7,362,463	448,462	6.09%
Property Penalty & Interest	1,081,708	993,565	88,143	8.87%
Sales / Use Taxes	6,120,338	5,454,507	665,831	12.21%
Excise Taxes	749,706	696,006	53,700	7.72%
Permits / Licenses	1,282,858	1,118,680	164,178	14.68%
State Revenue	1,661,492	1,421,178	240,314	16.91%
Grant Revenue	1,264,058	1,051,110	212,948	20.26%
Intergovernmental	1,139,774	945,837	193,937	20.50%
Fees	1,917,705	1,757,990	159,715	9.09%
Fines	507,037	600,820	-93,783	-15.61%
Interest	612,851	1,290,472	-677,621	-52.51%
Bond Financing	224,094		224,094	
Other / Misc	199,782	113,790	85,992	75.57%
<b>TOTAL REVENUES</b>	<b>24,572,328</b>	<b>22,806,418</b>	<b>1,765,910</b>	<b>7.74%</b>
<b>EXPENDITURES</b>				
General Government	8,352,810	7,526,661	826,149	10.98%
Judicial	3,050,880	2,955,022	95,858	3.24%
Public Safety	10,164,330	9,432,053	732,277	7.76%
Physical Environment	187,602	168,924	18,678	11.06%
Economic Environment	2,125,976	1,978,931	147,045	7.43%
Culture and Recreation	306,833	282,550	24,283	8.59%
Capital Outlay	402,989	349,783	53,206	15.21%
Debt Service	54,389	10,577	43,812	414.22%
<b>TOTAL EXPENDITURES</b>	<b>24,645,809</b>	<b>22,704,501</b>	<b>1,941,308</b>	<b>8.55%</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	2,958,053	2,734,676	223,377	8.17%
Transfers (Out)	-1,631,880	-1,916,513	284,633	-14.85%
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,326,173</b>	<b>818,163</b>	<b>508,010</b>	<b>62.09%</b>
<b>NET CHANGE</b>	<b>1,252,692</b>	<b>920,080</b>		
Fund Balance, January 1,	10,765,103	9,845,023		
<b>FUND BALANCE, DECEMBER 31,</b>	<b>12,017,795</b>	<b>10,765,103</b>	<b>1,252,692</b>	

As shown on the table above the General Fund had an ending Fund Balance of \$12.0 million, which reflects an increase of \$1.25 million over the prior year ending balance of \$10.7 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		
	2015	2014
<b>Fund Balance Classification</b>		
Restricted	27,904	37,461
Committed	152,848	109,078
Assigned	2,206,025	2,206,025
Unassigned	9,631,019	8,412,540
<b>Total Fund Balance</b>	<b>12,017,796</b>	<b>10,765,104</b>
Expenses	26,277,689	24,621,014
Total Fund Balance	12,017,796	10,765,104
<b>PERCENTAGE</b>	<b>45.73%</b>	<b>43.72%</b>
Expenses	26,277,689	24,621,014
Unassigned Fund Balance	9,631,019	8,412,540
<b>PERCENTAGE</b>	<b>36.65%</b>	<b>34.17%</b>

On December 31, 2015, the General Fund Restricted Fund Balance was \$28 thousand and represents \$26 thousand for the Court Facilitator; and \$2 thousand for animal control; the General Fund Committed Fund Balance was \$153 thousand and represents \$124 thousand for technology, and \$29 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 \$9.6 million.

**General Fund Budgetary Revenue and Expenditure Changes**

There is a variance between the final amended total General Fund revenue budget of \$27 million, which included a fund balance reserve transfer of \$1.2 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 \$980 thousand reflects savings of \$630 thousand in salary and benefits; \$135 thousand in services; \$206 thousand for capital; and \$9 thousand in debt service.

**GENERAL FUND BUDGET TO ACTUAL**

	Budget	Actual
Revenues	25,258,155	27,530,381
Expenditures	25,258,155	26,277,689

**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 2015.

**PROPRIETARY FUNDS**

**December 31, 2015**

	<b>Operating Revenues</b>	<b>Operating Expenses</b>	<b>Operating Income (Loss)</b>	<b>Non- Operating Revenues (Expenses)</b>	<b>Transfers In (Out)</b>	<b>Change in Net Position</b>
Solid Waste	\$ 6,622,869	\$ 6,084,517	\$ 538,352	\$ 193,821	\$ (422,824)	\$ 309,349
Four Springs Lake Preserve	46,299	63,657	(17,358)	-	(2,172)	(19,530)
Internal Service Funds	4,506,439	4,314,423	192,016	6,426	187,884	386,326
<b>TOTAL</b>	<b>\$ 11,175,607</b>	<b>\$ 10,462,597</b>	<b>\$ 713,010</b>	<b>\$ 200,247</b>	<b>\$ (237,112)</b>	<b>\$ 676,145</b>

On December 31, 2015, total Net Position for Solid Waste was \$8.44 million, which is a decrease of \$56 thousand dollars (-0.6%) over the prior year balance of \$8.49 million. The variance represents the increased revenue activity at the transfer stations of \$430 thousand; the increase of non-operating income of \$144 thousand; the increase of \$789 thousand in expenses; and the reduction/restatement of the January 1, 2015 beginning balances of \$365 thousand attributable to the implementation of GASB Statement No. 68. The Four Springs Lake Preserve total Net Position was \$1.09 million a decrease of \$28 thousand (-2.5%) over the prior year balance of \$1.12 million. That variance represents the increase in revenue of \$1,450 dollars; the increase of \$7,805 dollars in expenses; and the reduction/restatement of the January 1, 2015 beginning balances of \$8,733 dollars attributable to the implementation of GASB Statement No. 68. Internal Service Funds total Net Position was \$11.7 million which represents an increase of \$386 thousand (3.4%) over the prior year balance of \$11.4 million. That variance includes the increase in revenue of \$417 thousand; and the increase in expenses of \$71 thousand.

**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, 2015**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>TOTAL</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Land	23,021,240	22,746,618	1,067,537	1,067,537	24,088,777	23,814,155
Construction in Progress	7,931,088	7,617,606			7,931,088	7,617,606
Intangible (Right of Way)	6,897,667	5,348,411			6,897,667	5,348,411
Buildings	19,346,315	19,517,535	1,152,895	1,205,837	20,499,210	20,723,372
Intangible (Software)	256,226	360,728	20,684	26,594	276,910	387,322
Improvements (Other Than Buildings)	1,818,178	1,996,788	1,437,302	1,554,922	3,255,480	3,551,710
Machinery & Equipment	6,618,685	5,952,454	603,889	618,504	7,222,574	6,570,958
Infrastructure	57,530,943	57,046,817			57,530,943	57,046,817
<b>TOTAL</b>	<b>123,420,342</b>	<b>120,586,957</b>	<b>4,282,307</b>	<b>4,473,394</b>	<b>127,702,649</b>	<b>125,060,351</b>

The investment in total capital assets for both the Governmental and Business-type Activities as of December 31, 2015, increased by \$2.6 million (2.1%) to \$128 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, 2015 for Island County.

#### **LONG-TERM LIABILITIES**

	<b>2015</b>	<b>2014</b>
2005 Limited Tax General Improvement Refunding Bonds		2,395,000
2010 Limited Tax General Improvement Refunding Bonds	4,920,000	5,005,000
2014 B Certificates of Participation (COP)	383,495	416,404
State Water Quality Assistance (L1000014)	33,764	67,092
State Water Quality Assistance (L0700005)		22,406
State Water Quality Assistance (L1100002)	462,211	380,453
<b>TOTAL</b>	<b>5,799,470</b>	<b>8,286,355</b>

On December 31, 2015 the outstanding long-term debt was \$5.8 million. On October 15, 2015 the 2005 General Obligation Bond principal outstanding of \$2,395,000 was paid in full. This early redemption resulted in an approximate savings of \$115,085 in interest expense. During the year \$85 thousand dollars of debt was retired on the 2010 GOB Bonds; \$32,909 dollars was retired on the 2014 COP's; and \$55,734 dollars was retired on the State Water Quality Assistance Loans. An additional \$81,758 dollars was awarded on the State Water Quality Assistance Loan L1100002 , and principle payments on that loan start in 2016.

Additional information about the County's long-term obligations can be found in Note 10 and Note 12 of this report.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Washington State 2015 paints a different picture than that of the previous ten 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 fourth quarter of 2015. Overall housing construction got off to a very strong start in 2016 as the number of units authorized by building permits soared to 75,900 (SAAR) in the first two months of 2016, the highest since November 2007. Regional home prices also continue to climb; and in the Seattle area the local home prices are up 10.0% over the previous December and are 43.1% higher than the November 2011 trough. Seattle area home prices have recovered to just 0.6% below the May 2007 pre-recession peak. Although, home prices and mortgage rates have increased, homes are still relatively affordable. The Seattle region's most prominent employers, namely Boeing, Microsoft and Amazon.com retain strong demand for their products. While both Boeing and Microsoft experienced mild slowdowns in hiring, Amazon.com experienced a boost in its employment as it expanded services and opened new lines of businesses. Employment opportunities offered within the Seattle region lead the way in reducing unemployment numbers by a significant margin. It is predicted the Washington economy will continue to outperform the U.S. economy by a narrow 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 an effect on sales. For those able to qualify, 2015 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. There are approximately 10,000 employees at NASWI which 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 2015 data is unavailable at this time. The additional squadrons of EA-18G aircraft to NASWI in 2013 and 2014 and the arrival of the new Maritime Patrol and Reconnaissance, P-8A Poseidon in 2015 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 is declining from the previous seven years. The continued increase in sales and sale prices resulted in an uptick in Island County real estate excise taxes and fees in 2015. 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 2016. Revenue from new custom construction remains dramatically lower than pre-2007 timeframe, but continued to grow in 2015. Inventory growth is slowing and home sales prices are increasing; and are expected to offer continued growth in 2016. Property valuations for 2015 reflected a slight increase in some property types, as evidenced by the 2015 property tax evaluation statements.

The year 2015 continued to appear to be a turning point for the local economy: The year ended with the State unemployment rate at 5.9%; and job growth at most major employers in the State – especially within the Seattle region - promises more jobs in 2016

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, 2015**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and Pooled Investments	\$ 51,265,471	\$ 5,374,894	\$ 56,640,365
Taxes Receivable	998,866		998,866
Other Receivables, Net	1,437,450	539,258	1,976,708
Internal Balances	(134,287)	134,287	
Due From Other Governments	5,703,732	62,586	5,766,318
Inventories	515,335		515,335
Prepaid Items	372,772		372,772
Unamortized Debt Issuance	352,214		352,214
Note Receivable - Current Portion	99,121		99,121
Restricted Assets - Cash Surplus Invested		1,424,458	1,424,458
Note Receivable - Noncurrent Portion	337,057		337,057
Net Pension Asset	1,457,321		1,457,321
Capital Assets - Not Being Depreciated			
Land	23,021,240	1,067,537	24,088,777
Construction In Progress	7,931,088		7,931,088
Capital Assets - Net Of Accumulated Depreciation			
Buildings and Other Improvements	21,164,493	2,590,198	23,754,691
Machinery and Equipment	6,618,684	603,890	7,222,574
Infrastructure	57,530,943		57,530,943
Intangibles	7,153,894	20,683	7,174,577
<b>TOTAL ASSETS</b>	<b>185,825,394</b>	<b>11,817,791</b>	<b>197,643,185</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	<b>2,068,087</b>	<b>72,928</b>	<b>2,141,015</b>
<b>LIABILITIES</b>			
Accounts Payable	1,852,311	169,568	2,021,879
Other Current Liabilities	608,119	23,234	631,353
Due To Other Governments	65,193	14,662	79,855
Grant Revenue			
Accrued Liabilities - Current Portion	194,342	17,996	212,338
Non-Current Liabilities			
Payable From Restricted Assets		1,424,458	1,424,458
Accrued Liabilities	5,373,641	131,117	5,504,758
Due Within One Year	681,874		681,874
Bond Premium	189,067		189,067
Due In More Than One Year	5,207,749		5,207,749
Net Pension Liability	14,436,634	347,634	14,784,268
<b>TOTAL LIABILITIES</b>	<b>28,608,930</b>	<b>2,128,669</b>	<b>30,737,599</b>
<b>DEFERRED INFLOW OF RESOURCES</b>	<b>2,714,428</b>	<b>92,802</b>	<b>2,807,230</b>
<b>NET POSITION</b>			
Net Investment In Capital Assets	118,652,756	4,282,308	122,935,064
Restricted For:			
Public Safety	103,794		103,794
Culture And Recreation	931,010		931,010
Economic Environment	4,902,467		4,902,467
Mental And Physical Health	1,124,466		1,124,466
Road And Streets	18,438,922		18,438,922
Capital Projects	5,424,333		5,424,333
Other Purposes	19,836		19,836
Physical Environment	2,192,716		2,192,716
Unrestricted	4,779,823	5,386,940	10,166,763
<b>TOTAL NET POSITION</b>	<b>156,570,123</b>	<b>\$ 9,669,248</b>	<b>\$ 166,239,371</b>

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, 2015

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	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES</b>							
General Government	\$ 9,573,427	\$ 1,244,364	\$ 1,717,169	\$ 202,241	\$ (6,409,653)	\$	\$ (6,409,653)
Judicial	3,439,103	885,784	468,049		(2,085,270)		(2,085,270)
Public Safety	12,396,778	276,620	1,597,664		(10,522,494)		(10,522,494)
Physical Environment	3,254,622	1,591,860	496,038		(1,166,724)		(1,166,724)
Transportation	11,336,097	441,233	842,376	2,458,712	(7,593,776)		(7,593,776)
Health and Human Services	4,804,498	971,592	2,447,276		(1,385,630)		(1,385,630)
Economic Environment	3,167,951	1,932,675	939,264		(296,012)		(296,012)
Culture and Recreation	1,715,927	310,381	257,902		(1,147,644)		(1,147,644)
Interest On Long-Term Debt	377,612				(377,612)		(377,612)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>50,066,015</b>	<b>7,654,509</b>	<b>8,765,738</b>	<b>2,660,953</b>	<b>(30,984,815)</b>		<b>(30,984,815)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Solid Waste	6,083,814	6,622,869	188,473			727,528	727,528
Park Facility Management	63,620	46,299				(17,321)	(17,321)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>6,147,434</b>	<b>6,669,168</b>	<b>188,473</b>			<b>710,207</b>	<b>710,207</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 56,213,449</b>	<b>\$ 14,323,677</b>	<b>\$ 8,954,211</b>	<b>\$ 2,660,953</b>	<b>\$ (30,984,815)</b>	<b>\$ 710,207</b>	<b>\$ (30,274,608)</b>
		General Revenues					
		Taxes					
		Property Taxes Levied for General Purpose				7,810,925	7,810,925
		Property Taxes Levied for Roads				8,499,891	8,499,891
		Property Taxes Levied for Specific Purpose				928,424	928,424
		Sales and Use Tax				8,818,323	8,818,323
		Motor Vehicle Fuel Tax				7,053,001	7,053,001
		Excise Taxes				2,982,665	2,982,665
		Miscellaneous				510,624	510,624
		Penalties and Interest				1,717,361	1,722,709
		Cable, 911 Excise Tax				1,346,010	1,346,010
		Gain (Loss) on Sale of Capital Assets				11,356	11,356
		Transfers				424,995	(424,995)
		Total General Revenues and Transfers				40,103,575	39,683,928
		Change in Net Position				9,118,760	9,409,320
		Net Position - January 1				161,827,801	171,581,179
		Prior Period Adjustment				(14,376,438)	(14,751,128)
		Net Position - January 1, Restated				147,451,363	156,830,051
		<b>NET POSITION - DECEMBER 31</b>				<b>\$ 156,570,123</b>	<b>\$ 166,239,371</b>

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

ISLAND COUNTY, WASHINGTON  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

	GENERAL FUND	COUNTY ROAD FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Pooled Investments	11,562,569	18,554,394	18,644,964	48,761,927
Taxes Receivable	550,068	354,406	94,392	998,866
Other Receivables, Net	955,362	1,873	314,039	1,271,274
Due From Other Funds				
Interfund Loans Receivable				
Due From Other Governments	1,616,938	2,196,111	1,823,574	5,636,623
TOTAL ASSETS	14,684,937	21,106,784	20,876,969	56,668,690
<b>LIABILITIES</b>				
Accounts Payable	536,100	269,515	778,925	1,584,540
Due To Other Funds				
Interfund Loans Payable				
Due To Other Governments	3,984	2	61,207	65,193
Accrued Liabilities	288,493	69,516	247,850	605,859
TOTAL LIABILITIES	828,577	339,033	1,087,982	2,255,592
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable Revenue - Property Tax	550,068	368,669	94,394	1,013,131
Unavailable Revenue - Grants	125,524	501,344	594,895	1,221,763
Unavailable Revenue - Other			193,821	193,821
TOTAL DEFERRED INFLOWS OF RESOURCES	675,592	870,013	883,110	2,428,715
<b>FUND BALANCES (DEFICITS)</b>				
Nonspendable				
Restricted	275,691	18,031,222	16,023,178	34,330,091
Committed	215,745	7,838	625,836	849,419
Assigned	3,028,024	1,858,678	2,256,863	7,143,565
Unassigned	9,661,308			9,661,308
TOTAL FUND BALANCES	13,180,768	19,897,738	18,905,877	51,984,383
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)	14,684,937	21,106,784	20,876,969	56,668,690

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, 2015**

Total Fund Balances as shown on the Governmental Funds Balance Sheet	\$ 51,984,383
Capital Assets used in Governmental Activities are not financial resources, therefore are not reported in the Funds	109,511,695
Capital Assets acquired through donation of property value are not included in the Funds	5,033,136
Long-term debts are not due and payable in the current period, therefore are not reported in the Funds	(6,078,690)
Other Assets are not available to pay current expenditures, such as property taxes and notes receivables, therefore are not reported in the Funds.	3,430,641
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.	11,652,847
Other Liabilities such as Compensated Absences that are not due and payable in the current period, are not reported in the Funds.	(5,338,235)
Pension Asset, Deferred Outflows, Deferred Inflows and Liability	(13,625,654)
Net Position of Governmental Activities	<u><u>\$ 156,570,123</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, 2015**

	GENERAL FUND	COUNTY ROAD FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 15,762,677	\$ 8,503,208	\$ 7,705,117	\$ 31,971,002
Licenses and Permits	1,306,047	100,020	651,865	2,057,932
Intergovernmental Revenue	3,939,806	9,414,191	5,143,208	18,497,205
Charges for Services	2,329,391	754,839	3,003,935	6,088,165
Fines and Forfeits	507,037		3,382	510,419
Interest and Investment Earnings	612,851		22,314	635,165
Miscellaneous	350,254	21,431	136,336	508,021
TOTAL REVENUES	24,808,063	18,793,689	16,666,157	60,267,909
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
General Government	8,751,862		553,366	9,305,228
Judicial	3,050,880		398,733	3,449,613
Public Safety	10,201,357		1,961,905	12,163,262
Utilities and Environment	212,712		2,259,282	2,471,994
Transportation		10,287,285	913,178	11,200,463
Economic Environment	2,125,976		1,106,837	3,232,813
Mental and Physical Health			5,326,347	5,326,347
Culture and Recreation	317,201		1,311,605	1,628,806
<b>DEBT SERVICE</b>				
Principal	32,908		2,535,734	2,568,642
Interest	21,481		285,596	307,077
<b>CAPITAL OUTLAY</b>	413,859	3,399,937	1,569,878	5,383,674
TOTAL EXPENDITURES	25,128,236	13,687,222	18,222,461	57,037,919
Excess (Deficiency) of Revenues Over Expenditures	(320,173)	5,106,467	(1,556,304)	3,229,990
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of Long Term Debt	222,519	33	86,643	309,195
Insurance Recovery		6,975	94,115	101,090
Disposition of Capital Assets	1,576	9,354		10,930
Transfers In	3,058,053		2,811,470	5,869,523
Transfers (Out)	(1,633,680)	(2,203,037)	(1,795,694)	(5,632,411)
TOTAL OTHER SOURCES (USES)	1,648,468	(2,186,675)	1,196,534	658,327
NET CHANGE IN FUND BALANCES	1,328,295	2,919,792	(359,770)	3,888,317
Fund Balance - January 1	11,852,473	16,977,946	19,265,647	48,096,066
Prior Period Adjustment				
Fund Balance - January 1, Restated	11,852,473	16,977,946	19,265,647	48,096,066
<b>FUND BALANCE - DECEMBER 31</b>	<b>\$ 13,180,768</b>	<b>\$ 19,897,738</b>	<b>\$ 18,905,877</b>	<b>\$ 51,984,383</b>

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, 2015

Net Change in Fund Balances for Governmental Funds	\$ 3,888,317
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.	2,596,639
Proceeds of notes receivable provide current resources to Governmental Funds but decrease assets in the Statement of Net Position.	212,359
Debt proceeds provide current financial resources to Governmental Funds but debt increases long-term liabilities in the Statement of Net Position	(81,758)
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.	2,568,642
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.	386,326
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>(451,765)</u>
Changes in Net Position of Governmental Activities on the Statement of Activities	<u>\$ 9,118,760</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, 2015**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
<b>ASSETS</b>				
Current Assets				
Cash and Pooled Investments	\$ 5,351,042	\$ 23,852	\$ 5,374,894	\$ 2,518,737
Due From Other Funds				
Other Receivables, Net	539,258		539,258	2,577
Due From Other Governments	54,586	8,000	62,586	1,983
Inventories				515,335
Prepaid Items				372,772
Total Current Assets	5,944,886	31,852	5,976,738	3,411,404
Noncurrent Assets				
Restricted Assets - Cash	1,424,458		1,424,458	
Capital Assets - Net Of Accumulated Depreciation				
Land	559,890	507,647	1,067,537	781,692
Buildings and Other Improvements	1,996,598	593,600	2,590,198	2,406,913
Machinery and Equipment	603,890		603,890	5,686,906
Intangible Assets	20,683		20,683	
Total Non-Current Assets	4,605,519	1,101,247	5,706,766	8,875,511
TOTAL ASSETS	10,550,405	1,133,099	11,683,504	12,286,915
Deferred Outflow Of Resources	71,229	1,699	72,928	
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	151,660	17,908	169,568	267,771
Due To Other Funds				
Due To Other Governments	14,658	4	14,662	
Accrued Wages	22,790	444	23,234	10,760
Other Current Liabilities				167,634
Total Current Liabilities	189,108	18,356	207,464	446,165
Noncurrent Liabilities				
Payable From Restricted Assets	1,424,458		1,424,458	
Compensated Absences	136,924	12,189	149,113	53,616
Net Pension Liability	339,532	8,102	347,634	
Total Noncurrent Liabilities	1,900,914	20,291	1,921,205	53,616
TOTAL LIABILITIES	2,090,022	38,647	2,128,669	499,781
Deferred Inflow Of Resources	90,639	2,163	92,802	
<b>NET POSITION</b>				
Net Investment In Capital Assets	3,181,061	1,101,247	4,282,308	8,875,511
Unrestricted	5,259,912	(7,259)	5,252,653	2,911,623
TOTAL NET POSITION	\$ 8,440,973	\$ 1,093,988	9,534,961	\$ 11,787,134
Adjustments reflect consolidation of Internal Service Fund activities related to Enterprise Funds			134,287	
<b>NET POSITION OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 9,669,248</b>	

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, 2015**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
<b>OPERATING REVENUE</b>				
Charges For Services	\$ 6,622,869	\$	\$ 6,622,869	\$ 881,885
Equipment and Space Rents		46,299	46,299	2,961,238
Sales of Merchandise				663,316
Total Operating Revenues	6,622,869	46,299	6,669,168	4,506,439
<b>OPERATING EXPENSES</b>				
Wages and Benefits	1,585,099	32,720	1,617,819	722,076
Maintenance and Operation	4,257,605	14,194	4,271,799	2,515,032
Depreciation and Amortization	241,813	16,743	258,556	1,077,315
Total Operating Expenses	6,084,517	63,657	6,148,174	4,314,423
NET OPERATING INCOME (LOSS)	538,352	(17,358)	520,994	192,016
<b>NON-OPERATING REVENUE (EXPENSE)</b>				
Interest Income	5,348		5,348	
Operating Grants	188,473		188,473	
Miscellaneous Income (Expense)				6,426
Sale of Capital Assets				
Total Non-Operating Income	193,821	-	193,821	6,426
Net Income Before Transfers	732,173	(17,358)	714,815	198,442
Transfers In				506,279
Transfers Out	(422,823)	(2,172)	(424,995)	(318,396)
CHANGE IN NET POSITION	309,350	(19,530)	289,820	386,325
Net Position - January 1	8,497,580	1,122,251		11,400,809
Prior Period Adjustment	(365,957)	(8,733)		
Net Position - January 1, Restated	8,131,623	1,113,518		
<b>NET POSITION - DECEMBER 31</b>	<b>\$ 8,440,973</b>	<b>\$ 1,093,988</b>		<b>\$ 11,787,134</b>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds			740	
<b>CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 290,560</b>	

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, 2015**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
	SOLID WASTE	OTHER FUNDS	TOTAL	INTERNAL SERVICE FUNDS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts From Operations	6,335,337	46,299	6,381,636	4,548,201
Payments For Wages and Benefits	(1,593,601)	(29,237)	(1,622,838)	(724,971)
Payments To Suppliers For Goods and Services	(4,129,785)	5,140	(4,124,645)	(2,516,606)
Internal Activity - Payments To Other Funds	(280,290)	(2,779)	(283,069)	
Net Cash Provided (Used) By Operating Activities	331,661	19,423	351,084	1,306,624
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Operating Grants	449,227	(3,000)	446,227	
Transfer Cash From Restricted Cash Assets	154,760		154,760	
Transfers	(422,823)	(2,172)	(424,995)	185,506
Net Cash Provided (Used) By Non-Capital Financing Activities	181,164	(5,172)	175,992	185,506
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases Of Capital Assets	(67,469)		(67,469)	(1,349,029)
Cash Received From Sale Of Capital Assets	-		-	43,775
Net Cash Used For Capital and Related Financing Activities	(67,469)		(67,469)	(1,305,254)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest On Investments	5,351		5,351	
Net Cash Provided By Investing Activities	5,351		5,351	
Net Increase (Decrease) In Cash and Cash Equivalents	450,707	14,251	464,958	186,876
Cash and Cash Equivalents At Beginning of Year	4,900,335	9,601	4,909,936	2,331,861
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,351,042	23,852	5,374,894	2,518,737
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Operating Income (Loss)	538,352	(17,358)	520,994	192,016
<b>Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities</b>				
Depreciation and Amortization	241,813	16,743	258,556	1,077,315
Change In IBNR				(116,665)
Changes In Assets and Liabilities				
Accounts Receivable, Net	(287,532)		(287,532)	19,303
Inventory				(38,500)
Accounts Payable	54,236	16,722	70,958	167,392
Compensated Absences	(8,502)	3,483	(5,019)	(2,895)
Other Operating Assets	(51,946)	(167)	(52,113)	8,658
Landfill Liability	(154,760)		(154,760)	
Total Adjustments	(206,691)	36,781	(169,910)	1,114,608
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	331,661	19,423	351,084	1,306,624

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, 2015**

	AGENCY FUNDS
<b>ASSETS</b>	
Cash	\$ 21,809,823
Investments, At Fair Value	19,855,507
Taxes Receivable	3,954,276
Other Receivables, Net	10,786
Due From Other Governments	255
TOTAL ASSETS	\$ 45,630,647
<b>LIABILITIES</b>	
Accounts Payable	4,143,587
Custodial Accounts	41,487,060
TOTAL LIABILITIES	\$ 45,630,647

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.

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 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. Basis of Accounting, Measurement Focus 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 2015 and January 2016, plus 2014 expenditures paid after January 31, 2015. 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, 2015, the Treasurer reported pooled Island County investments of \$73,607,847 and combined short and long-term investments of \$20,102,055 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, 2015. 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, 2015, there were no outstanding interfund loans. A separate schedule of interfund 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 \$1,424,458, 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 \$3,904,599 and other post-employment benefits (OPEB) of \$1,708,309. 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.

In addition, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### 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, 2015.

#### 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, 2015, all funds had total fund balances in excess of two months revenue except the Public Health Fund, Human Services Administration Fund, Natural Resources, Law Library, Public Works and the Enhanced 911 Fund. The Public Health Fund is \$85 thousand dollars short of the two months requirement; the Human Services Administration Fund is \$114 thousand dollars short of the two months requirement; the Natural Resources is \$188 thousand dollars short of the two months requirement; the Law Library is \$5 thousand dollars short of the two months requirement; and Public Works is \$99 thousand dollars short of the two month requirement. All cash flow requirements can be covered by other departmental funds which are supported. 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, 2015

	General Fund	County Road Fund	Other Governmental Funds	Total
<b>Restricted Fund Balance</b>				
General Government Services	\$ 108,535		\$ 506,648	\$ 615,183
Judicial	26,364		48,576	74,940
Public Safety	123,839		46,660	170,499
Utilities and Environment	1,540		1,727,185	1,728,725
Transportation		18,031,221	932,456	18,963,677
Economic Environment			5,063,494	5,063,494
Mental and Physical Health			1,726,573	1,726,573
Culture and Recreation			547,677	547,677
Capital			5,423,909	5,423,909
Other	15,413			15,413
<b>Committed Fund Balance</b>				
General Government Services	123,949			123,949
Judicial				
Public Safety				
Utilities and Environment				
Transportation		7,838		7,838
Economic Environment				
Mental and Physical Health			88,919	88,919
Culture and Recreation	91,796		536,917	628,713
Capital				
Other				
<b>Assigned Fund Balance</b>				
General Government Services	3,017,418		9,484	3,026,902
Judicial	6,025		118,961	124,986
Public Safety			582,500	582,500
Utilities and Environment			-	-
Transportation		1,858,678	484,673	2,343,351
Economic Environment			9,238	9,238
Mental and Physical Health			468,645	468,645
Culture and Recreation			582,938	582,938
Capital			424	424
Other	4,581			4,581
<b>Unassigned Fund Balance</b>				
	9,661,308		-	9,661,308
<b>Grand Total</b>	<b>\$ 13,180,768</b>	<b>\$ 19,897,737</b>	<b>\$ 18,905,877</b>	<b>\$ 51,984,382</b>

## **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	\$ 107,099,635
Assets acquired during 2015	5,388,674
Less Current year asset disposition	(16,233)
Less Current year depreciation expense	(2,960,381)
Total	<u>\$ 109,511,695</u>
2. Capital Assets acquired through donation of property value are not financial resources therefore are not reported in the funds.	
Total	<u>\$ 5,033,136</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	\$ (8,577,484)
LEOFF – Law Enforcement Officers and Fire Fighters Retirement System	(17,679)
Current year principal payments	2,568,642
Current year loan proceeds	(81,758)
Current year amortization of bond premium	29,589
Total	<u>\$ (6,078,690)</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	\$ 1,013,132
District Court receivables not available to finance expenditures	342,229
Note receivable balance water quality assistance at end of year	193,823
Debt refunding and issuance costs	327,267
Grant revenue receivable at end of year	1,221,763
Assets held for resale	24,947
Current year new issue 2014B Certificates of Participation	257,480
Other Receivables	50,000
Total	<u>\$ 3,430,641</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	\$ 1,208,012
Net Position: Motor Pool applicable to Governmental Funds	894,846
Net Position: Equipment Rental/Revolving applicable to Governmental Funds	9,549,989
Total	<u>\$ 11,652,847</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	\$ (3,701,870)
Other Post-Employment Benefits payable at year end	(1,618,156)
Interest due on long-term debt and other payables at year-end	(18,208)
Total	<u>\$ (5,338,234)</u>
7. Pension	
Net Pension Asset	\$ 1,457,321
Deferred Outflows Related to Pensions	2,068,087

Net Pension Liability	(14,436,634)
Deferred Inflows Related to Pensions	(2,714,428)
Total	<u>\$ (13,625,654)</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 2015	\$ 5,388,674
Land Donated in 2015	184,579
Less Current year depreciation expense	(2,960,381)
Less Current year assets disposition	(16,233)
Total	<u>\$ 2,596,639</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	\$ 130,601
Notes Receivable amounts issued	81,758
Total	<u>\$ 212,359</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>\$ (81,758)</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	\$ 2,512,908
Other Debt principal payments	55,734
Total	<u>\$ 2,568,642</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	\$ 3,025
Net Position Change: Motor Pool applicable to Governmental Funds	150,013
Net Position Change: Equip Rental/Revolving applicable to Governmental Funds	233,288
Total	<u>\$ 386,326</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	\$ (138,868)
Interest due on long-term debt and other payables	(70,535)
Property tax levy not recognized as revenue	(77,890)
Other Post-Employment benefits payable not requiring resources	(237,180)
Revenue receivable not available to finance expenditures	72,708
Total	<u>\$ (451,765)</u>

### **NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

All funds except Human Services Fund, Public Works and the Natural Resources Fund have a positive fund balance. The deficit fund balance of \$973 in the Human Services Fund as of December

31, 2015 recovered in 2016. The deficit fund balance of \$6,977 in the Public Works Fund December 31, 2015, recovered in 2016. The deficit fund balance of \$99,947 in the Natural Resources Fund as of December 31, 2015 recovered in 2016.

The 2015 annual budget was adopted on the modified accrual cash basis, which includes 2015 expenditures paid in 2015 and in January 2016 and 2014 expenditures paid after January 31, 2015. For the year ended December 31, 2015, expenditures exceeded appropriations in the following funds:

- REET 2 Capital Facilities \$1,184,517 - The fund had Grant covered expenditures that were not budgeted for the purchase of the Glendale Conservation Easement. The over expenditures were covered by the Grant revenue.
- Natural Resources \$77,033 - The fund had Grant covered expenditures that were not budgeted for the Shoreline Armoring Reduction program. The over expenditures were covered by the Grant revenue.
- Four Springs \$1,945 - The fund had 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, 2015. The fair value as of December 31, 2015 was \$350,740 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, 2015:

Investment	Maturities	Island County Investments Fair Value	Island County as Fiscal Agent Fair Value	Total Investments
State Investment Pool	\$ 28,676,174	\$ 9,940,666	\$ 18,735,508	\$ 28,676,174
U.S. Agencies	51,505,944	51,247,532		51,247,532
Municipal Bonds	8,860,000	9,150,127		9,150,127
Certificates of Deposit	4,647,000	3,269,522	1,366,547	4,636,069
<b>Total Investments</b>	<b>\$ 93,689,118</b>	<b>\$ 73,607,847</b>	<b>\$ 20,102,055</b>	<b>\$ 93,709,902</b>

#### **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 \$1,000 of assessed valuation for general governmental services as provided by RCW 84.52.043. For 2015, the total was \$.66139 on an assessment valuation of \$12.157 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 2015 was \$.83627 per \$1,000 on an assessed valuation of \$10.079 billion. Special levies approved by the voters are not subject to the above limitations. In 2015, the county levied an additional \$.05710 per \$1,000 for Conservation Futures.

Island County levied the following property taxes on the 2015 Levy for 2016 collection.

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	\$ .66139	\$ 8,040,268
Total General Government	.66139	\$ 8,040,268
Conservation Futures	.05710	694,203
Road Levy	.83627	8,428,630
<b>Total</b>	<b>\$ 1.55476</b>	<b>\$ 17,163,101</b>

## **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, 2015 comprises:

<b>Governmental Activities</b>	<b>Beginning Balance 01/01/2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2015</b>
Capital assets not being depreciated:				
Land	22,746,618	274,772	(150)	23,021,240
Construction in progress	7,617,606	3,000,963	(2,687,481)	7,931,088
Intangible Assets	5,348,410	1,549,267	(10)	6,897,667
<b>Total capital assets not being depreciated</b>	<b>35,712,634</b>	<b>4,825,002</b>	<b>(2,687,641)</b>	<b>37,849,995</b>
Capital assets being depreciated:				
Buildings	36,315,856	284,190		36,600,046
Intangible Assets	2,615,741	18,253	(18,667)	2,615,327
Improvements other than buildings	5,369,150			5,369,150
Machinery and equipment	18,864,012	1,890,451	(1,045,831)	19,708,632
Infrastructure	80,247,649	2,683,948		82,931,597
<b>Total capital assets being depreciated</b>	<b>143,412,408</b>	<b>4,876,842</b>	<b>(1,064,498)</b>	<b>147,224,752</b>
Less accumulated depreciation for:				
Buildings	(16,798,322)	(455,409)		(17,253,731)
Intangible Assets	(2,255,013)	(122,446)	18,358	(2,359,101)
Improvements other than buildings	(3,372,361)	(178,611)		(3,550,972)
Machinery and equipment	(12,911,557)	(1,081,408)	903,018	(13,089,947)
Infrastructure	(23,200,832)	(2,199,822)		(25,400,654)
<b>Total accumulated depreciation</b>	<b>(58,538,085)</b>	<b>(4,037,696)</b>	<b>921,376</b>	<b>(61,654,405)</b>
<b>Net capital assets being depreciated</b>	<b>84,874,323</b>	<b>839,146</b>	<b>(143,122)</b>	<b>85,570,347</b>
<b>Governmental activities capital assets, net</b>	<b>120,586,957</b>	<b>5,664,148</b>	<b>(2,830,763)</b>	<b>123,420,342</b>

<b>Business-Type Activities</b>	<b>Beginning Balance 01/01/2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2015</b>
Capital assets not being depreciated:				
Land	1,067,537			1,067,537
<b>Total capital assets not being depreciated</b>	<b>1,067,537</b>			<b>1,067,537</b>
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	2,016,871	67,468		2,084,339
<b>Total capital assets being depreciated</b>	<b>9,363,194</b>	<b>67,468</b>		<b>9,430,662</b>
Less accumulated depreciation for:				
Buildings	(1,249,901)	(52,942)		(1,302,843)
Intangible Assets	(32,502)	(5,910)		(38,412)
Improvements other than buildings	(3,276,567)	(117,620)		(3,394,187)

Machinery and equipment	(1,398,367)	(82,083)	0	(1,480,450)
<b>Total accumulated depreciation</b>	<b>(5,957,337)</b>	<b>(258,555)</b>	<b>0</b>	<b>(6,215,892)</b>
<b>Net capital assets being depreciated</b>	<b>3,405,857</b>	<b>(191,087)</b>	<b>0</b>	<b>3,214,770</b>
<b>Business-type activities capital assets, net</b>	<b>4,473,394</b>	<b>(191,087)</b>	<b>0</b>	<b>4,282,307</b>

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

<u>Governmental Activities</u>	<u>Amount</u>
General Government	\$ 248,574
Public Safety	334,382
Physical Environment	5,939
Transportation	2,245,363
Economic Environment	(14,424)
Health and Human Services	3,198
Culture and Recreation	137,349
Internal Service Fund	1,077,315
Total Depreciation and Amortization— Governmental Activities	<u>\$ 4,037,696</u>
<u>Business-Type Activities</u>	<u>Amount</u>
Solid Waste	\$ 241,813
Four Springs Lake Preserve	16,742
Total Depreciation and Amortization – Business-Type Activities	<u>\$ 258,555</u>

**B. Collections Not Capitalized**

The County has no collections that are not capitalized as of December 31, 2015.

**C. Construction Commitments**

The County has active construction projects as of December 31, 2015. At year-end, the government's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Various Road Projects	\$ 619,780	\$ 0
New County Road	\$ 970,095	\$ 159,429

**NOTE 7 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ 14,784,268
Pension assets	\$ 1,457,321
Deferred outflows of resources	\$ 2,141,015
Deferred inflows of resources	\$ 2,807,230
Pension expense/expenditures	\$ 1,365,352



## State Sponsored 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS Plans 1 and 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

\* For employees participating in the Judges Benefit Multiplier (JBM), the contribution rate was 12.26%

Island County's actual contributions to the plan were \$ 799,066 for the year ended December 31, 2015.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3** members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

#### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

\* For employees participating in JBM, the contribution rate was 15.30%

Island County's actual contributions to the plan were \$ 949,949 for the year ended December 31, 2015.

#### **Public Safety Employees' Retirement System (PSERS)**

**PSERS Plan 2** was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, 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 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.

PSERS covered employers include:

- Certain 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),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

**PSERS Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (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. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. 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 three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

#### Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The **PSERS Plan 2** required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January through June 2015	10.54%	6.36%
July through December 2015	11.54%	6.59%

Island County's actual contributions to the plan were \$ 53,624 for the year ended December 31, 2015.

### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

**LEOFF Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10 - 19 years of service – 1.5% of FAS
- 5 - 9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

#### Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. 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 three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

#### Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

Island County's actual contributions to the plan were \$ 200,691 for the year ended December 31, 2015.

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 the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was

assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

### Sensitivity of NPL

The table below presents Island County's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what Island County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 9,900,418	\$ 8,131,742	\$ 6,610,844
PERS 2/3	\$ 19,308,587	\$ 6,603,367	\$ (3,124,544)
PSERS 2	\$ 373,543	\$ 49,159	\$ (181,590)
LEOFF 1	\$ (118,247)	\$ (184,833)	\$ (241,584)
LEOFF 2	\$ 1,274,314	\$ (1,272,488)	\$ (3,189,054)

### Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, Island County reported a total pension liability of \$ 13,326,947 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 8,131,742
PERS 2/3	\$ 6,603,367
PSERS 2	\$ 49,159
LEOFF 1	\$ (184,833)
LEOFF 2	\$ (1,272,488)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to Island County. The amount recognized by Island County as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with Island County were as follows:

	Liability (or Asset)
LEOFF 2 – Employer's proportionate share	\$ (1,272,488)
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	\$ (841,373)
TOTAL	\$ (2,113,861)

At June 30, Island County's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.155324 %	0.155455 %	0.000131 %
PERS 2/3	0.181404 %	0.184810 %	0.003406 %
PSERS 2	0.296971 %	0.269337 %	(0.027634) %
LEOFF 1	0.015209 %	0.015336 %	0.000127 %
LEOFF 2	0.093905 %	0.123807 %	0.029902 %

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.



### Pension Expense

For the year ended December 31, 2015, Island County recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 488,174
PERS 2/3	\$ 813,517
PSERS 2	\$ 57,912
LEOFF 1	\$ (37,521)
LEOFF 2	\$ 43,270
TOTAL	\$ 1,365,352

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, Island County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS - 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 444,895
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 464,525	\$
TOTAL	\$ 464,525	\$ 444,895

PERS - 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 701,940	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 1,762,786
Changes of assumptions	\$ 10,640	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 109,593	\$
Contributions subsequent to the measurement date	\$ 563,115	\$
TOTAL	\$ 1,385,288	\$ 1,762,786



<b>PSERS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 46,057	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 24,383
Changes of assumptions	\$ 304	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$ 1,686
Contributions subsequent to the measurement date	\$ 30,259	\$
<b>TOTAL</b>	<b>\$ 76,620</b>	<b>\$ 26,069</b>

<b>LEOFF - 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 31,203
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$	\$
<b>TOTAL</b>	<b>\$</b>	<b>\$ 31,203</b>

<b>LEOFF - 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 111,428	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ 385,557
Changes of assumptions	\$ 3,356	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$ 156,719
Contributions subsequent to the measurement date	\$ 99,798	\$
<b>TOTAL</b>	<b>\$ 214,582</b>	<b>\$ 542,276</b>

Deferred outflows of resources related to pensions resulting from Island County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS –1</b>
2016	\$ (172,426)
2017	\$ (172,426)
2018	\$ (172,426)
2019	\$ 72,383

<b>Year ended December 31:</b>	<b>PERS – 2/3</b>
2016	\$ (446,371)
2017	\$ (446,371)
2018	\$ (446,373)
2019	\$ 398,501

<b>Year ended December 31:</b>	<b>PSERS</b>
2016	\$ (2,285)
2017	\$ (2,285)
2018	\$ (2,288)
2019	\$ 12,259
2020	\$ 7,446
Thereafter	\$ 7,443

<b>Year ended December 31:</b>	<b>LEOFF - 1</b>
2016	\$ (12,108)
2017	\$ (12,108)
2018	\$ (12,108)
2019	\$ 5,121

<b>Year ended December 31:</b>	<b>LEOFF - 2</b>
2016	\$ (158,785)
2017	\$ (158,785)
2018	\$ (158,786)
2019	\$ 58,540
2020	\$ (8,064)
Thereafter	\$ (1,613)

#### 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 is a participating member of the Washington Counties Risk Pool (WCRP). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to join together for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in August of 1988 when 15 counties in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2015, 26 counties participate in the WCRP.

The Pool allows members to jointly establish a plan of self-insurance, and provides related services, such as risk management and claims administration. Members enjoy 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 are \$25 million per occurrence and 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. For losses occurring in 2015, Island County selects a per-occurrence deductible of \$50,000.

Members make an annual contribution to fund the Pool. The Pool acquires reinsurance for 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 2014-15, this "corridor" increased the SIR to \$2 million, but with an aggregated stop loss of \$3.35 million. Other reinsurance agreements respond up to the applicable policy limits. Those 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). Since the Pool is a cooperative program, there is a joint liability among the participating members.

New members may be asked to pay modest fees to cover the costs to analyze their loss data and risk profiles, and for 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 member 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.

The Pool is fully funded by its member participants. Claims are filed directly with the Pool by members and adjusted by one of the six staff members responsible for evaluating each claim for coverage, establishing reserves, and investigating for any risk-shared liability. The Pool does not contract with any third party administrators for claims adjustment or loss prevention services.

During 2014-15, Island County was also one of twenty-six (26) counties which participated in the Washington Counties Property Program (WCPP). Property losses are covered under the WCPP to the participating counties' buildings and contents, vehicles, mobile/contractor 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. Each participating county is solely responsible for paying their selected

deductible, ranging between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

Island County also participates in the jointly purchased cyber risk and security coverage from a highly-rated commercial insurer.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. The Board of Directors generally meets three-times each year with the Annual Meeting of the Pool being held in summer. The Board approves the extent of risk-sharing, approves the Pool's self-insuring coverage documents, approves the selection of reinsurance and excess agreements, and approves the Pool's annual operating budget.

An 11-member executive committee is elected by and from the WCRP Board for staggered, 3-year terms. Authority has been delegated to the Committee by the Board of Directors to, a) approve all disbursements and reviews the Pool's financial health, b) approve case settlements exceeding the applicable member's deductible by at least \$50,000, c) review all claims with incurred loss estimates exceeding \$100,000, and d) evaluate the Pool's operations, 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.

During 2014-15, the WCRP's assets grew 3% to \$48.8 million while its liabilities increased slightly to \$29.8 million. The Pool's net position decreased slightly from \$19.4 million to \$18.9 million. The Pool more than satisfies the State Risk Manager's solvency requirements (WAC 200.100.03001). The Pool is a cooperative program with joint liability amongst its participating members.

Deficits of the Pool resulting from any fiscal year are financed by reassessments 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, 2015 was zero (\$0). As such, there were 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, 2015. 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, 2015. 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.

On October 15, 2015 the 2005 General Obligation Bond principal outstanding of \$2,395,000 was paid in full. This early redemption resulted in an approximate savings of \$115,085 in interest expense.

The 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
2010 Limited G.O. Bonds	Advance refunding 2001 LTGO Bond Issue used for Courthouse Expansion and Juvenile Detention Facility	\$ 5,320,000	Coupon rate of 3.0% to 4.0%	\$ 295,800
2014B Certificates of Participation	Energy and HVAC Efficiency Upgrades on various County Facilities	\$ 416,404	2.12526%	\$ 52,906
			Total	\$ 348,706

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
2016	\$ 134,596	\$ 214,110
2017	\$ 161,370	\$ 209,336
2018	\$ 603,235	\$ 202,470
2019	\$ 640,196	\$ 177,910
2020-2024	\$ 3,764,098	\$ 466,232
Total	\$ 5,303,495	\$ 1,270,058

#### 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; and one was paid in full in 2015. The remaining two 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, 2015
06/08/10	\$ 197,614		1.1%	\$ 0
10/31/11	\$ 147,425		1.3%	\$ 33,764
06/15/15	\$ 380,453	\$ 81,758	1.4%	\$ 462,211
			Total	\$ 495,975

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

Year Ending December 31	Principal	Interest
2016	\$ 423,361	\$ 40,821
2017	\$ 425,044	\$ 40,983
2018	\$ 445,313	\$ 20,715
2019	\$ 451,588	\$ 14,440
2020	\$ 457,951	\$ 8,077
2021	\$ 231,389	\$ 1,624
Total	\$ 2,434,646	\$ 126,660

The liability for compensated absences is recorded in the Government-wide Statements for all absences due as described in note 1.E.8. The amount is paid to employees when absences are taken. The estimated current amount to be paid is \$538,556 for Governmental funds and \$17,996 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 expired on December 31, 2015, and is now month to month. Total costs for all such leases were \$58,140 for the year ended December 31, 2015.

Future minimum lease payments are:

Year Ending December 31	Amount
2016	\$ 58,140
2017	\$ 58,140
Total	\$ 116,280

##### **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, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/15	Additions	Reductions	Ending Balance 12/31/15	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 7,400,000	\$	\$ (2,480,000)	\$ 4,920,000	\$ 100,000
Amortization / Issuance Costs	\$ 218,655	\$	\$ (29,589)	\$ 189,066	\$ 21,769
Certificates of Participation	\$ 416,403	\$	\$ (32,908)	\$ 383,495	\$ 34,596
Revolving State Fund	\$ 469,952	\$ 81,758	\$ (55,735)	\$ 495,975	\$ 457,125
Compensated Absences	\$ 3,616,618	\$ 2,038,276	\$ (1,899,408)	\$ 3,755,486	\$ 538,556
Net Pension Liability		\$ 14,436,634		\$ 14,436,634	
Other Post-Employment Benefits Payable	\$ 1,471,129	\$ 327,333	\$ (90,153)	\$ 1,708,309	\$ 90,153
Governmental Activity Long-term Liabilities:	\$ 13,592,757	\$ 16,884,001	\$ (4,587,793)	\$ 25,888,965	\$ 1,242,199
<b>Business-Type Activities:</b>					
Compensated Absences	\$ 154,322	\$ 98,751	\$ (103,960)	\$ 149,113	\$ 17,996
Net Pension Liability		347,634		347,634	
Business-type Activity Long-term Liabilities:	\$ 154,322	\$ 446,385	\$ (103,960)	\$ 496,747	\$ 17,996

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 \$53,616 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 \$33.1 million of restricted net position, which are restricted by enabling legislation.

**NOTE 15 - INTERFUND TRANSFERS**

Interfund transfers of \$6.3 million include (1) budget transfers of \$1.7 million; (2) support transfers of \$3.4 million and; (3) \$1.2 million of capital improvement transfers. The interfund transfers are shown on the following page.



**Island County**  
**Interfund Transfers**  
**For the Year Ended December 31, 2015**

	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
<b>Transfers In</b>							
General Fund	(2,958,053)				(2,958,053)		-
Other Governmental Funds			(2,053,771)	(111,071)	(2,164,842)		-
Business Type Activities					-		-
Transfers Reimb CAP/INF			(857,699)	(395,208)	(1,252,907)		-
Total Transfers In	(2,958,053)	-	(2,911,470)	(506,279)	(6,375,802)	-	-
<b>Transfers Out</b>							
General Fund	1,257,380				1,257,380		1,257,380
Other Governmental Funds		1,730,338	1,394,164	318,396	3,442,898		3,442,898
Business Type Activities					-	422,823	2,172
Transfers Reimb CAP/INF	374,500	472,699	403,330		1,250,529		424,995
Total Transfers Out	1,631,880	2,203,037	1,797,494	318,396	5,950,807	422,823	424,995
<b>Net Transfers (In) / Out</b>	(1,326,173)	2,203,037	(1,113,976)	(187,883)	(424,995)	422,823	424,995
							-

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:		
Cable and Telephone Fees	\$ 579,678	
Court Fees and Fines	398,234	
Interest on Investments and Property Tax	203,319	
Grant Revenue	95,302	
Election Billings	76,992	
Miscellaneous	83,925	
Accounts Receivable, Customers		539,258
Total	\$ 1,437,450	\$ 539,259
B. Accounts Payable consist of:		
Invoices for daily operating expenses	\$ 1,852,311	\$ 169,568
Total	\$ 1,852,311	\$ 169,568
C. Other Current Liabilities consist of:		
Payroll Payable	\$ 422,277	\$ 23,235
Accrued Interest on Debt	18,208	
IBNR Claims	167,634	
Total	\$ 608,119	\$ 23,235

**NOTE 17 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT**Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by 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 \$1,708,310 is included as a noncurrent liability on the Statement of Net Position.

<b>Determination of Annual Required Contribution:</b>	<b>12/31/2015</b>
Normal Cost at Year end	\$
Amortization of UAAL*	400,803
Annual Required Contribution (ARC)	\$ 400,803
<b>Determination of Net OPEB Obligation (NOO)</b>	
Annual Required Contribution (ARC)	\$ 400,803
Interest on Prior Year Net OPEB Obligation (NOO)	58,845
Adjustment to ARC	(132,315)
Annual OPEB Cost	327,333
Contribution Made	(90,152)
Increase In Net OPEB Obligation (NOO)	\$ 237,181
Net OPEB Obligation (NOO) – Beginning of Year	\$ 1,471,129
Net OPEB Obligation (NOO) – End of Year	\$ 1,708,310

\*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 2015 and the preceding six years is displayed below:

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
12/31/2015	\$ 327,333	27.5%	\$ 237,181

#### Funded Status and Funding Progress

As of January 1, 2007, the plan was 0% funded. The most recent actuarial valuation date is June 30, 2014. The funded status of the plan as of December 31, 2015 was as follows:

Actuarial Accrued Liability (AAL)	\$ 4,456,287
Amount Accrued as of 12/31/2015	(1,708,310)
Un-accrued Actuarial Liability	\$ 2,747,977

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 55.3 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, 2014 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 2015, the closure and post-closure maintenance and monitoring costs are reported to be \$1,424,458, which reflects a reduction of \$154,760, for expenses incurred in 2015. As required by Federal, State, and local regulations, cash in the amount of \$1,424,458 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 \$142,445 per year for the next ten years.

#### **NOTE 19 – ACCOUNTING AND REPORTING CHANGES**

The Government Accounting Standards Board (GASB), Statement No. 68, “Accounting and Financial Reporting for Pensions” became effective for financial statements with fiscal years beginning after June 15, 2014. Statement No. 68 replaces the requirements of Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers”, as well as Statement No. 50, “Pension Disclosures” as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements. Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Island County’s 2015 Financial Statements reflect the implementation of Statement No. 68, and as a result the beginning net position on the Statement of Activities, as well as on the Statement of Revenues, Expenses, and Changes in Net Position have been adjusted as shown below:

Statement of Activities	Governmental Activities	Business-Type Activities	Total
Net Position – Jan 1	\$ 161,827,801	\$ 9,753,378	\$ 171,581,179
Prior Period Adjustment	\$ (14,376,438)	\$ (374,690)	\$ (14,751,128)
Net Position – Jan 1, Restated	\$ 147,451,363	\$ 9,378,688	\$ 156,830,051

Statement of Revenues, Expenses, and Changes in Net Position	Solid Waste	Other Funds	Total
Net Position – Jan 1	\$ 8,497,580	\$ 1,122,251	\$ 9,619,831
Prior Period Adjustment	\$ (365,957)	\$ (8,733)	\$ (374,690)
Net Position – Jan 1, Restated	\$ 8,131,623	\$ 1,113,518	\$ 9,245,141

**ISLAND COUNTY**  
**BUDGET COMPARISON SCHEDULE**

**For the Year Ended December 31, 2015**

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		
<b>REVENUES</b>				
Taxes	\$15,263,000	\$15,263,000	\$15,762,677	\$499,677
Licenses and Permits	1,306,540	1,306,540	1,306,047	(493)
Intergovernmental Revenues	3,242,162	3,435,166	3,922,731	487,565
Charges For Goods and Services	2,030,195	2,031,200	2,328,941	297,741
Fines and Forfeits	572,750	572,750	507,037	(65,713)
Miscellaneous Revenues	215,256	246,217	574,371	328,154
Interest	587,200	587,200	612,851	25,651
<b>TOTAL REVENUES</b>	<b>23,217,103</b>	<b>23,442,073</b>	<b>25,014,655</b>	<b>1,572,582</b>
<b>EXPENDITURES</b>				
General Government	10,209,498	10,157,748	9,047,743	1,110,005
Judicial	3,164,286	3,193,019	3,050,880	142,139
Public Safety	9,200,522	10,117,659	10,196,911	(79,252)
Utilities and Environment	238,416	228,916	203,073	25,843
Economic Environment	2,117,100	2,098,960	2,125,976	(27,016)
Culture and Recreation	245,476	270,930	316,869	(45,939)
Debt Service	64,150	64,150	54,389	9,761
<b>TOTAL EXPENDITURES</b>	<b>25,239,448</b>	<b>26,131,382</b>	<b>24,995,841</b>	<b>1,135,541</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>(2,022,345)</b>	<b>(2,689,309)</b>	<b>18,814</b>	<b>2,708,123</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	3,058,053	3,058,053	3,058,053	
Transfers (Out)	(1,605,680)	(1,633,680)	(1,633,680)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,452,373</b>	<b>1,424,373</b>	<b>1,424,373</b>	
<b>NET CHANGE IN FUND BALANCE</b>	<b>(569,972)</b>	<b>(1,264,936)</b>	<b>1,443,187</b>	<b>2,708,123</b>
<b>BEGINNING FUND BALANCE</b>		<b>11,819,747</b>	<b>11,819,747</b>	
<b>ENDING FUND BALANCE</b>		<b>\$10,554,811</b>	<b>\$13,262,934</b>	<b>\$2,708,123</b>

\* 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		
<b>REVENUES</b>				
Taxes	\$8,413,200	\$8,413,200	\$8,503,208	\$90,008
Licenses and Permits	116,800	116,800	100,020	(16,780)
Intergovernmental Revenues	8,728,469	8,728,469	9,421,584	693,115
Charges For Goods and Services	425,042	425,042	754,839	329,797
Fines and Forfeits	1,000	1,000	0	(1,000)
Miscellaneous Revenues	5,000	5,000	21,431	16,431
<b>TOTAL REVENUES</b>	<b>17,689,511</b>	<b>17,689,511</b>	<b>18,801,082</b>	<b>1,111,571</b>
<b>EXPENDITURES</b>				
Transportation	15,467,874	15,467,874	13,210,583	2,257,291
Capital Outlay	340,600	340,600	446,297	(105,697)
<b>TOTAL EXPENDITURES</b>	<b>15,808,474</b>	<b>15,808,474</b>	<b>13,656,880</b>	<b>2,151,594</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,881,037</b>	<b>1,881,037</b>	<b>5,144,202</b>	<b>3,263,165</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds From Sale of Capital Assets	5,000	5,000	9,354	4,354
Other Nonrevenue's - Insurance Recovery			6,975	6,975
Transfers In				
Transfers (Out)	(2,203,037)	(2,203,037)	(2,203,037)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,198,037)</b>	<b>(2,198,037)</b>	<b>(2,186,708)</b>	<b>11,329</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(317,000)</b>	<b>(317,000)</b>	<b>2,957,494</b>	<b>3,274,494</b>
<b>BEGINNING FUND BALANCE</b>		<b>16,977,946</b>	<b>16,977,946</b>	
<b>ENDING FUND BALANCE</b>		<b>\$16,660,946</b>	<b>\$19,935,440</b>	<b>\$3,274,494</b>

**Island County, Washington**  
**OTHER POST EMPLOYMENT BENEFITS**  
**LEOFF 1 RETIREMENT BENEFITS**  
**AS OF DECEMBER 31, 2015**

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
12/31/2015	-	\$ 4,456,287	\$ 4,456,287	-	-	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**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Child Nutrition Cluster								
Food And Nutrition Service, Department Of Agriculture (via WA Superintendent of Public Instruction)	School Breakfast Program	10.553	15-204-9161	2,112	-	2,112	-	
	National School Lunch Program	10.555	15-204-9161	4,052	-	4,052	-	
	Total Child Nutrition Cluster:			6,164	-	6,164	-	
	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C16886	242,824	-	242,824	-	
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	8,766	-	8,766	-	
Total CFDA 10.557:				251,590	-	251,590	-	
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	C17111	17,828	-	17,828	-	
	Total SNAP Cluster:			17,828	-	17,828	-	
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	4,304	-	4,304	847	

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



**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
			From Pass- Through Awards	From Direct Awards	Total		
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation and Conservation Office Salmon Recovery Board)	11.438	14-1108R	73,769	-	73,769	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation and Conservation Office Salmon Recovery Board)	11.438	14-1108 R	2,040	-	2,040	2,400	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation and Conservation Office Salmon Recovery Board)	11.438	13-1364P	29,633	-	29,633	-	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via WA State Recreation and Conservation Office Salmon Recovery Board)	11.438	15-1392P	15,502	-	15,502	-	
Total CFDA 11.438:			120,943	-	120,943	2,400	
Violence Against Women Office, Department Of Justice (via Office of Crime Victims Advocacy)	16.588	F14-31103-048	7,593	-	7,593	-	8
Violence Against Women Office, Department Of Justice (via Office of Crime Victims Advocacy)	16.588	F09-31103-056	7,593	-	7,593	-	8
Total CFDA 16.588:			15,186	-	15,186	-	

The accompanying notes are an integral part of this schedule.

**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	ID04025006	-	10,318	10,318	-	
<b>Highway Planning and Construction Cluster</b>								
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-6115	50,923	-	50,923	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-7002	21,949	-	21,949	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-7003	24,835	-	24,835	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-7635	242,471	-	242,471	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-7968	45,193	-	45,193	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8093	24,372	-	24,372	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8429	170,334	-	170,334	-	

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

**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8648	173,000	-	173,000	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8644	2,477	-	2,477	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8606	27,682	-	27,682	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8615	3,872	-	3,872	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8436	7,685	-	7,685	-	
<b>Total Highway Planning and Construction Cluster:</b>				<b>794,793</b>	<b>-</b>	<b>794,793</b>	<b>-</b>	
<b>Highway Safety Cluster</b>								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Assoc. of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	MOU	2,620	-	2,620	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Assoc. of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	0016658-00	613	-	613	-	

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

# Island County

Total Highway Safety Cluster:

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

**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Region 10, Environmental Protection Agency (via WA State Puget Sound Partnership)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	C17111	148,806	-	148,806	19,833	
Region 10, Environmental Protection Agency (via Northwest Straits Marine Conservation Fund)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	2015-04- ISLAND	2,006	-	2,006	-	
Region 10, Environmental Protection Agency (via WA State Department of Fish & Wildlife)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	14-02085	111,770	-	111,770	58,495	
Region 10, Environmental Protection Agency (via WA State Department of Fish & Wildlife)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	2015-01	113,135	-	113,135	-	
<b>Total CFDA 66.123:</b>				<b>686,875</b>	<b>-</b>	<b>686,875</b>	<b>266,980</b>	
Office Of Water, Environmental Protection Agency (via WA State Dept of Ecology)	National Estuary Program	66.456	SEANWS-2015- IsCoPH-00004	13,679	-	13,679	-	
Office Of Water, Environmental Protection Agency (via WA State Dept of Ecology)	National Estuary Program	66.456	SEANWS-2014- IsCoPH-00002	49,495	-	49,495	9,740	
<b>Total CFDA 66.456:</b>				<b>63,174</b>	<b>-</b>	<b>63,174</b>	<b>9,740</b>	
<b>Drinking Water State Revolving Fund Cluster</b>								
Office Of Water, Environmental Protection Agency (via WA State Dept of Ecology)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C17111	15,550	-	15,550	-	8

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

**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
	<b>Total Drinking Water State Revolving Fund Cluster:</b>			<b>15,550</b>	<b>-</b>	<b>15,550</b>	<b>-</b>	
Office Of Special Education And Rehabilitative Services, Department Of Education (via WA State Dept of Social & Health Services)	Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	8500CC-63	34,680	-	34,680	-	
U.s. Election Assistance Commission (via WA SECRETARY OF STATE)	Help America Vote Act Requirements Payments	90.401	G-2840 4A	2,822	-	2,822	-	
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 14-0441	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	C17111	29,370	-	29,370	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Health)	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1363-89950	21,034	-	21,034	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Health)	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1563-42478	14,161	-	14,161	-	

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

**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Health)	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1363-89950	1,883	-	1,883	-	
		93.243	1563-42478	1,199	-	1,199	-	
Total CFDA 93.243:				38,277	-	38,277	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Dept of Health)	Immunization Cooperative Agreements	93.268	C17111	2,227	-	2,227	-	
		93.268	C17111	8,960	-	8,960	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via WA State Dept of Health)	Immunization Cooperative Agreements	93.268	C17111	4,184	-	4,184	-	
		93.268	N/A	15,297	-	15,297	-	5
Total CFDA 93.268:				30,668	-	30,668	-	
Administration For Children And Families, Department Of Health And Human Services (via WA State Dept of Social and Human Services)	Child Support Enforcement	93.563	75-1501-0-1- 609	46,692	-	46,692	-	

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

**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Administration For Children And Families, Department Of Health And Human Services (via WA State Dept of Social and Human Services)	Child Support Enforcement	93.563	1463-99065	53,127	-	53,127	-	
Administration For Children And Families, Department Of Health And Human Services (via WA State Dept of Social and Human Services)	Child Support Enforcement	93.563	0763-015706	6,745	-	6,745	-	
<b>Total CFDA 93.563:</b>				<b>106,564</b>	<b>-</b>	<b>106,564</b>	<b>-</b>	
<b>Medicaid Cluster</b>								
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via WA State Dept of Social a& Health Services)	Medical Assistance Program	93.778	K761	9,425	-	9,425	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via WA State Dept of Social a& Health Services)	Medical Assistance Program	93.778	1163-32540	70,403	-	70,403	-	
<b>Total Medicaid Cluster:</b>				<b>79,828</b>	<b>-</b>	<b>79,828</b>	<b>-</b>	
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	99,147	-	99,147	-	

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



**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
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-15-16	55,000	-	55,000	-	
			<b>Total CFDA 93.958:</b>	<b>154,147</b>	<b>-</b>	<b>154,147</b>	<b>-</b>	
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	59,727	-	59,727	-	
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	1563-42478	12,873	-	12,873	-	
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	9,540	-	9,540	9,540	
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	1563-43735	8,884	-	8,884	8,884	
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	4,640	-	4,640	-	

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

# Island County

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

**Island County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

				Expenditures				Passed through to Subrecipients	Note
				CFDA Number	Other Award Number	From Pass-Through Awards	From Direct Awards		
Department Of Homeland Security (via WA State Military Dept)	Homeland Security Grant Program	97.067	E14-222	85,460	-	-	85,460	-	
Department Of Homeland Security (via WA State Military Dept)	Homeland Security Grant Program	97.067	E14-075	33,430	-	-	33,430	-	
Department Of Homeland Security (via WA State Military Dept)	Homeland Security Grant Program	97.067	E-15-082	13,136	-	-	13,136	-	
<b>Total CFDA 97.067:</b>				<b>215,377</b>	<b>-</b>	<b>-</b>	<b>215,377</b>	<b>83,351</b>	
<b>Total Federal Awards Expended:</b>				<b>2,907,824</b>	<b>10,318</b>	<b>-</b>	<b>2,918,142</b>	<b>381,742</b>	

The accompanying notes are an integral part of this schedule.

Island County, Washington  
**Notes to the Schedule of Expenditures of Federal Awards**  
For the Year Ended December 31, 2015

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the County's financial statements. Island County utilizes the modified accrual basis of accounting for all fund types except for the Proprietary Fund Types, which utilize full accrual basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the County portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Noncash Awards - Vaccinations

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

Note 4 – Indirect Cost Rate

The County has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note 5 – American Recovery and Reinvestment Act (ARRA) of 2009

Expenditures for this program were funded by ARRA.

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

### Island County January 1, 2015 through December 31, 2015

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the Island County.

<b>Finding ref number:</b> 2015-001	<b>Finding caption:</b> The County did not have adequate internal controls in place to ensure accurate reporting of its financial statements.
<b>Name, address, and telephone of auditee contact person:</b> County Auditor Sheilah Crider and Chief Deputy Auditor LaRae Brown Island County 1 N.E. 7th Street Coupeville WA 98239 (360) 678-7849	
<b>Corrective action the auditee plans to take in response to the finding:</b> <p><i>The Governmental Accounting Standards Board (GASB) issued Statement No. 68 Accounting and Financial Reporting for Pensions, a new pension reporting requirement for employers effective June 1, 2015. Island County utilized the worksheet provided by the State Auditor's Office to develop the amounts required for the general ledger entries to support this highly complex GASB 68 Statement requirement.</i></p> <p><i>The Net Pension Asset amount was not correct and the prior period adjustment amount was not correctly reflected on a separate line on the Statement of Activities. The County did update the Financial Statements and included a separate line item on the Statement of Activities showing the prior period adjustment.</i></p> <p><i>The County also documented the procedures related to the implementation of this new standard and will strive to get outside professional technical guidance, training and assistance to ensure that this standard is correctly reflected in all future Financial Statements.</i></p>	
<b>Anticipated date to complete the corrective action:</b> January 30, 2017	

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>