



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Skagit County Dike, Drainage, and Irrigation Improvement District No. 12

(Skagit County Dike District No. 12)

For the period January 1, 2022 through December 31, 2023

Published March 27, 2025

Report No. 1036874



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**Office of the Washington State Auditor
Pat McCarthy**

March 27, 2025

Board of Commissioners
Skagit County Dike District No. 12
Burlington, Washington

Report on Financial Statements

Please find attached our report on Skagit County Dike District No. 12's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Skagit County Dike District No. 12 January 1, 2022 through December 31, 2023

2023-001 The District did not have adequate internal controls ensuring accurate financial reporting of its financial statements.

Background

State and federal agencies, the Board of Commissioners and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance its financial reporting is reliable and the financial statements and notes to financial statements are accurate.

The District prepares its financial statements in accordance with the cash-basis accounting method prescribed in the State Auditor's Office's *Budgeting, Accounting and Reporting System* (BARS) Manual.

Our audit identified deficiencies over accounting and financial reporting that affected the District's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses as a finding.

Description of Condition

We found the following deficiencies in internal controls that represent a material weakness:

- While District management reviews reported revenues and expenditures, no one performs a formal reconciliation to ensure accuracy of the reported information.
- The District's review of its financial statements, notes and schedules was not detailed enough to detect and correct misstatements.

Cause of Condition

The District relies on monthly statements the County provides rather than maintaining a separate general ledger to track financial records.

Further, District management relies on an outside accounting firm to prepare its financial statements. The District does not consistently communicate information regarding its financial activities to the firm, limiting the firm's knowledge of whether the reported financial statement balances are accurate. The firm therefore relies heavily on the statements the County provides each month.

District management also relied heavily on the accounting knowledge of the firm and did not dedicate the necessary resources to perform a sufficient review of the statements the accounting firm prepared.

Effect of Condition

We identified the following errors in the 2023 financial statements we received for audit:

- Expenditures were understated by \$1,252,069
- Ending cash and investments were overstated by \$1,851,473

The District subsequently corrected the errors identified.

Recommendation

We recommend the District perform timely reviews and reconciliations between known financial activities and the County Treasurer statements.

Additionally, as the financial statements are the District's responsibility, we recommend it implement internal controls over the preparation and review of its financial statements to ensure they are accurate, complete and comply with BARS Manual requirements.

Further, we recommend the District increase its communication with the firm regarding its financial activities to ensure the firm has all necessary information when preparing the financial statements.

District's Response

"Expenditures were understated by \$1,252,069"

DISTRICT RESPONSE: The reported expenditures balance was determined to be incorrect as compared to County Treasurer Reports as a result of scrivener's or inadvertent input or tabulation error by the District's Bars contractor, Larson Gross CPAs. The discrepancy has since been corrected by Larson Gross CPAs by verifying and recalculating the relevant category inputs.

While the District relies on the expertise of its third-party contractors in such matters, and was unaware of the subject discrepancy, it remains committed to improving safeguards to avoid similar inadvertent errors in the future. The District will continue to review all County Treasurer Reports monthly and with its third-party CPAs whenever feasible to ensure accuracy of financial statements.

"Ending cash and investments were overstated by \$1,851,473"

DISTRICT RESPONSE: The reported cash and investments balance was determined to be incorrect as compared to County Treasurer Reports as a result of scrivener's or inadvertent input or tabulation error by the District's Bars contractor, Larson Gross CPAs. The discrepancy has since been corrected by Larson Gross CPAs by verifying and recalculating the relevant category inputs.

While the District relies on the expertise of its third-party contractors in such matters, and was unaware of the subject discrepancy, it remains committed to improving safeguards to avoid similar inadvertent errors in the future. The District will continue to review all County Treasurer Reports monthly and with its third-party CPAs whenever feasible to ensure accuracy of financial statements.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

INDEPENDENT AUDITOR'S REPORT

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

Skagit County Dike District No. 12 January 1, 2022 through December 31, 2023

Board of Commissioners
Skagit County Dike District No. 12
Burlington, 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 Skagit County Dike District No. 12, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 20, 2025.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2023-001, that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

DISTRICT'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The District'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 District'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 District'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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

March 20, 2025

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Skagit County Dike District No. 12 January 1, 2022 through December 31, 2023

Board of Commissioners
Skagit County Dike District No. 12
Burlington, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of Skagit County Dike District No. 12, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of Skagit County Dike District No. 12, and its changes in cash and investments, for the years ended December 31, 2023 and 2022, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Skagit County Dike District No. 12, as of December 31, 2023 and 2022, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2025 on our consideration of the District's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

March 20, 2025

FINANCIAL SECTION

Skagit County Dike District No. 12 January 1, 2022 through December 31, 2023

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2023

Fund Resources and Uses Arising from Cash Transactions – 2022

Notes to Financial Statements – 2023

Notes to Financial Statements – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2023

Schedule of Liabilities – 2022

Skagit County Dike, Drainage, and Irrigation Improvement District No. 12
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2023

Beginning Cash and Investments

308	Beginning Cash and Investments	19,773,934
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	2,743,687
350	Fines and Penalties	-
360	Miscellaneous Revenues	1,278,091
Total Revenues:		4,021,778

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	4,027,295
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		4,027,295
Excess (Deficiency) Revenues over Expenditures:		(5,517)

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

Other Decreases in Fund Resources

594-595	Capital Expenditures	320,187
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		320,187

Increase (Decrease) in Cash and Investments: **(325,704)**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	-
50891	Unassigned	19,448,230
Total Ending Cash and Investments		19,448,230

The accompanying notes are an integral part of this statement.

Skagit County Dike, Drainage, and Irrigation Improvement District No. 12
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

Beginning Cash and Investments

308	Beginning Cash and Investments	19,066,157
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	2,737,520
350	Fines and Penalties	-
360	Miscellaneous Revenues	587,698
Total Revenues:		3,325,218

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	2,423,047
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		2,423,047
Excess (Deficiency) Revenues over Expenditures:		902,171

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

Other Decreases in Fund Resources

594-595	Capital Expenditures	194,394
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		194,394

Increase (Decrease) in Cash and Investments: **707,777**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	-
50891	Unassigned	19,773,934
Total Ending Cash and Investments		19,773,934

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Year Ended December 31, 2023

Note 1 – Summary of Significant Accounting Policies

The Skagit County Dike District No. 12 (SCDD12) was incorporated in 1895 and operates under the laws of the state of Washington applicable to a dike district. The district is a special purpose local government and provides flood protection.

The SCDD12 reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

Fund Accounting

Financial transactions of SCDD12 are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. SCDD12 resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

Governmental Fund Types:

General Fund

This fund is the primary operating fund of SCDD12. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law, SCDD12 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Budgets

SCDD12 adopts annual appropriated budgets for operating funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level.

Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

Notes to the Financial Statements

For the Year Ended December 31, 2023

Note 1 – Summary of Significant Accounting Policies– (Continued)

The appropriated and actual expenditures for the legally adopted budgets were as follow:

<u>Fund/Department</u>	<u>Final Appropriated Amounts</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General Fund	\$ 3,000,000	\$ 4,347,482	\$ (1,347,482)

Any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Commissioners of SCDD12.

Cash and Investments

See Note 3, Deposits and Investments.

Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

Compensated Absences

Vacation leave may be accumulated up to 192 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. Upon separation or retirement employees do receive payment for unused sick leave. Payments are recognized as expenditures when paid.

Risk Management

The SCDD12 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization 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 program was formed on September 1, 1988, when 34 cities 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 November 30, 2023, there are 196 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$8,347,047.

Notes to the Financial Statements

For the Year Ended December 31, 2023

Note 1 – Summary of Significant Accounting Policies – (Continued)

Risk Management – (Continued)

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000-member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000-member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2023, were \$3,172,937.

Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by SCDD12. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

Note 2 – Property Tax

The Skagit County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by SCDD12. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The SCDD12 regular levy for the year 2023 was \$1.236 per \$1,000 on an assessed valuation of \$3,706,605,800 for a total regular levy of \$3,000,000.

Notes to the Financial Statements

For the Year Ended December 31, 2023

Note 3 – Deposits and Investments

It is the SCDD12 policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the SCDD12 or its agent in the government's name.

The SCDD12 is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Investments are reported at cost. Investments by type at December 31, 2023 are as follows:

Type of Investment	Investments held by SCDD12 as an agent for other		Total
	(City/county/district's) Own investments	local governments, individuals or private organizations	
L.G.I.P.	\$ 19,447,230	\$ -	\$ 19,447,230
Total	\$ 19,447,230	\$ -	\$ 19,447,230

Note 4 – Related Parties

Skagit County Dike and Drainage Flood Control Partnership – The Skagit County Dike and Drainage Flood Control Partnership (the Partnership) was formed by SCDD12, Skagit County Dike District No. 1, Skagit County Dike District No. 3, Skagit County Dike District No. 17, and Skagit County Consolidated Dike District No. 22 by ordinance on September 4, 2008. This interlocal agreement fulfills the Partnership's desire to have a method to coordinate responses to emerging flood project-related issues, and flood control efforts that may affect members individually and/or collectively. The Partnership is governed by a board composed of one commissioner from each district appointed by the district.

Skagit County Drainage and Irrigation District Consortium, LLC – SCDD12 was admitted to the Skagit County Drainage and Irrigation District Consortium, LLC (the Consortium) effective September 16, 2019, joining member districts Skagit County Diking District No. 3, Skagit County Dike, Drainage, and Irrigation Improvement District No. 5, Skagit County Drainage and Irrigation Improvement District No. 14, Skagit County Drainage and Irrigation Improvement District No. 15, Skagit County Drainage and Irrigation Improvement District No. 16, Skagit County Drainage and Improvement District No. 17, Skagit County Drainage and Improvement District No. 18, Skagit County Drainage and Improvement District No. 19, Skagit County

Notes to the Financial Statements

For the Year Ended December 31, 2023

Note 4 – Related Parties – (Continued)

Consolidated Diking, Draining, and Improvement District No. 22, Skagit County Drainage and Irrigation District No. 22, and Skagit Country Drainage and Irrigation District No. 25. Upon paying its capital contributions of \$25,000 in 2018 and \$11,000 in 2019, SCDD12 become a member district in the Consortium and holds a percentage interest in the voting rights and other attributes of the Consortium as provided for in the Interlocal Operating Agreement of Skagit County Drainage and Irrigation District Consortium, LLC (the Operating Agreement). The Operating Agreement provides a means for each member district to share in the costs of implementing their collective goals, and further provides the means for both the payment of services and the audit of funds.

Notes to the Financial Statements

For the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies

The Skagit County Dike District No. 12 (SCDD12) was incorporated in 1895 and operates under the laws of the state of Washington applicable to a dike district. The district is a special purpose local government and provides flood protection.

The SCDD12 reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

Fund Accounting

Financial transactions of SCDD12 are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. SCDD12 resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

Governmental Fund Types:

General Fund

This fund is the primary operating fund of SCDD12. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law, SCDD12 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Budgets

SCDD12 adopts annual appropriated budgets for operating funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level.

Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

Notes to the Financial Statements

For the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies– (Continued)

The appropriated and actual expenditures for the legally adopted budgets were as follow:

<u>Fund/Department</u>	<u>Final Appropriated Amounts</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General Fund	\$ 2,750,000	\$ 2,617,440	\$ 132,560

Any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Commissioners of SCDD12.

Cash and Investments

See Note 3, Deposits and Investments.

Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

Compensated Absences

Vacation leave may be accumulated up to 192 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. Upon separation or retirement employees do receive payment for unused sick leave. Payments are recognized as expenditures when paid.

Risk Management

The SCDD12 is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization 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 program was formed on September 1, 1988, when 34 cities 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 November 30, 2022, there are 195 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$7,110,058.

Notes to the Financial Statements

For the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies – (Continued)

Risk Management – (Continued)

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000-member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000-member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 31, 2022, were \$2,747,184.

Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by SCDD12. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

Note 2 – Property Tax

The Skagit County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by SCDD12. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The SCDD12 regular levy for the year 2022 was \$1.065 per \$1,000 on an assessed valuation of \$2,928,743,861 for a total regular levy of \$2,750,000.

Notes to the Financial Statements

For the Year Ended December 31, 2022

Note 3 – Deposits and Investments

It is the SCDD12 policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the SCDD12 or its agent in the government's name.

The SCDD12 is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Investments are reported at cost. Investments by type at December 31, 2022 are as follows:

Type of Investment	Investments held by SCDD12 as an agent for other		Total
	(City/county/district's) Own investments	local governments, individuals or private organizations	
L.G.I.P.	\$ 17,595,061	\$ -	\$ 17,595,061
Total	\$ 17,595,061	\$ -	\$ 17,595,061

Note 4 – Related Parties

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Notes to the Financial Statements

For the Year Ended December 31, 2022

Note 4 – Related Parties – (Continued)

Consolidated Diking, Draining, and Improvement District No. 22, Skagit County Drainage and Irrigation District No. 22, and Skagit Country Drainage and Irrigation District No. 25. Upon paying its capital contributions of \$25,000 in 2018 and \$11,000 in 2019, SCDD12 become a member district in the Consortium and holds a percentage interest in the voting rights and other attributes of the Consortium as provided for in the Interlocal Operating Agreement of Skagit County Drainage and Irrigation District Consortium, LLC (the Operating Agreement). The Operating Agreement provides a means for each member district to share in the costs of implementing their collective goals, and further provides the means for both the payment of services and the audit of funds.

Skagit County Dike, Drainage, and Irrigation Improvement District No. 12
 Schedule of Liabilities
 For the Year Ended December 31, 2023

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated absences		31,592	29,814	14,184	47,222
Total Revenue and Other (non G.O.) Debt/Liabilities:			31,592	29,814	14,184	47,222
Total Liabilities:			31,592	29,814	14,184	47,222

Skagit County Dike, Drainage, and Irrigation Improvement District No. 12
Schedule of Liabilities
For the Year Ended December 31, 2022

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated absences		23,785	30,101	22,294	31,592
Total Revenue and Other (non G.O.) Debt/Liabilities:			23,785	30,101	22,294	31,592
Total Liabilities:			23,785	30,101	22,294	31,592

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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