

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

Skagit County

Audit Period
January 1, 2006 through December 31, 2006

Report No. 73661

Issue Date
December 10, 2007



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Independent Auditor's Report on Financial Statements

Skagit County
January 1, 2006 through December 31, 2006

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed on page 15. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Skagit County, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General and County Road funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 16 through 30 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit*

Organizations. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 12, 2007

Financial Section

Skagit County
January 1, 2006 through December 31, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Skagit County's discussion and analysis offers readers of the County's financial statements a narrative overview and analysis of the County's financial activities for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

- The total assets of Skagit County exceeded its liabilities at December 31, 2006 by over \$413 million dollars. Net assets invested in capital assets (net of depreciation and related debt) account for 88% of this amount, with a value of over \$365 million. Of the remaining net assets, \$22.6 million was restricted for specific projects or programs and \$25.2 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- As of December 31, 2006, Skagit County's governmental activities reported combined ending net assets of nearly \$409 million. Of that amount, over \$366 million was invested in capital assets, \$22.6 million was legally restricted for specific projects or programs, and \$20.0 million was available for spending at the government's discretion.
- Fund balance for the General Fund was \$5.01 million dollars at December 31, 2006.
- Fund balance for the County Road fund was \$8.8 million dollars at December 31, 2006.
- In October 2006, the County issued \$7,610,000 in general obligation bonds. Of that, \$6,065,000 was issued for the construction/purchase of a Health department facility (or other capital facility as needed) and \$1,545,000 was issued to reimburse the Facility Improvement Fund for land acquisition.
- Skagit County's total long-term debt at December 31, 2006 was \$22.265 million, with a remaining capacity for non-voted debt at \$210 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Skagit County's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

There are two government-wide financial statements designed to provide readers with a broad overview of Skagit County's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of Skagit County that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of Skagit County include a full range of local government services provided to the public, such as law enforcement and public safety; the superior, juvenile, and district court systems; legal prosecution and indigent defense; jails and corrections; road construction and maintenance; planning and community development; parks and open space preservation; and care and welfare of the disadvantaged and mentally ill. In addition, other general government services are provided, such as elections, property assessment, tax collection, and the issuance of licenses. The business-type activities of Skagit County include Solid Waste and Drainage Utility.

The statement of net assets presents information on all of Skagit County's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. However, this is just one indicator of the financial health of the County. Other indicators include the condition of the County's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the County.

The statement of activities presents information showing how the government's net assets changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2006, and earned but unused vacation leave, will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2006.

The financial statements present information on a "Component Unit". The Emergency Medical Services Commission was established in April of 2003 by the Board of Skagit County Commissioners pursuant to the Revised Code of Washington 35.21.730 and 36.01.095. The component unit is not covered in this discussion. Additional information concerning the component unit may be found in Note I of the Notes to the Financial Statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Skagit County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Skagit County can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. Governmental Funds are used to account for most, if not all, of a government's tax-supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds

The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund, the County Road Fund, and the Facility Improvement Fund, all of which are considered to be major funds, based on criteria established by GASB Statement #34. (GASB Statement #34 defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category.) Data from the remaining governmental funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found immediately following the government-wide financial statements. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements, outside of the basic financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements in order to facilitate this comparison.

The County maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level, except for the General Fund, which is adopted on a department level. Capital outlays (in capital funds) are approved on an item-by-item basis or project basis with budgetary control at the fund level. A budgetary comparison statement is provided for the General Fund and the County Road Fund to demonstrate compliance with the budget.

Proprietary Funds

There are two types of proprietary funds - Enterprise Funds and Internal Service Funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Solid Waste and Drainage Utility activities. Internal Service Funds accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its vehicle fleet, medical and unemployment insurance, computer equipment replacement reserves, and various other administrative services. The revenues and expenses of the internal service funds that are duplicated in other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Assets to the business-type column on the Government-Wide Statement of Net Assets, you will notice that the total net assets agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" (assets) and the "due to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

Individual fund data for each of the non-major proprietary funds is provided in the form of combining statements. The proprietary fund combining statements follow the governmental fund combining statements in this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Skagit County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Skagit County has one type of fiduciary fund: Agency Funds (which are clearing accounts for assets held by Skagit County in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong). The Statement of Fiduciary Net Assets can be found following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Skagit County's total assets stand at over \$448 million as of December 31, 2006, an increase of \$5 million from the previous year, while liabilities stand at nearly \$35 million, an increase of \$8 million from December 31, 2005.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Skagit County's net assets total \$413,458,398 at December 31, 2006 compared to \$416,738,589 in 2005. This net decrease of nearly \$3.3 million (.79%) is discussed in the paragraphs following the Skagit County's Net Assets table.

Skagit County's Net Assets

	Governmental Activities		Business-Type Activities		Total		% Change
	2006	2005	2006	2005	2006	2005	
Current and Other Assets	\$61,158,251	\$48,383,483	\$5,928,453	\$6,567,103	\$67,086,704	\$54,950,586	22.09%
Capital Assets and Construction in Progress (Net of Depreciation)	376,327,997	383,845,873	4,817,291	4,391,747	381,145,288	388,237,620	-1.83%
Total Assets	437,486,248	432,229,356	10,745,744	10,958,850	448,231,992	443,188,204	1.14%
Long-Term Liabilities	21,651,908	14,944,268	5,394,555	6,349,081	27,046,463	21,293,349	27.02%
Other Liabilities	7,063,935	4,429,664	609,126	726,602	7,673,061	5,156,266	48.81%
Total Liabilities	28,715,843	19,373,932	6,003,681	7,075,683	34,719,524	26,449,615	31.27%
Net Assets:							
Invested in Capital Assets,							
Net of Related Debt	366,147,997	381,055,873	(488,175)	(1,849,849)	365,659,822	379,206,024	-3.57%
Restricted	22,616,026	21,211,900	-	-	22,616,026	21,211,900	6.62%
Unrestricted	19,952,312	10,587,650	5,230,238	5,733,014	25,182,550	16,320,664	54.30%
Total Net Assets	\$408,716,335	\$412,855,424	\$4,742,063	\$3,883,167	\$413,458,398	\$416,738,589	-.79%

Of the \$67.1 million in current and other assets (compared to \$55 million at December 31, 2005), over \$52.4 million is in cash and cash equivalents and investments (up from \$41.3 million in 2005), nearly \$7.6 million is in accounts receivable and amounts due from other governments (up from \$6.6 million in 2005), \$5.7 million is in inventories/prepayments (down from nearly \$6 million in 2005), and the remaining \$1.4 million is spread among various assets. At December 31, 2006, cash and cash equivalents and investments accounted for 78.2% (compared to 75.2% in 2005), while accounts receivable and amounts due from other governments accounted for 11.3% (compared to 12.1% from 2005).

At December 31, 2006, the County had outstanding liabilities of \$34.8 million (an \$8.3 million increase from 2005), with \$27 million in long term liabilities (an increase of nearly \$5.8 million from 2005). Of the long term liabilities, nearly \$3.5 million was due within a year (down from \$4.3 million in 2005), with the remainder due over an extended period of time. Refer to the notes to the financial statements (Note V.) for a more in-depth discussion of long term debt.

The largest portion of the County's net assets (88%) reflects its investment in capital, less any outstanding related debt used to acquire those assets. The County's capital assets are used to provide services to citizens and are therefore not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, more than 5% of the County's net assets are subject to external restrictions on how they may be used (restricted by the Revised Code of the State of Washington or by contractual agreements with parties outside of the primary government). The remaining balance of \$25.2 million (6% of net assets), represents the amount that may be used to meet the County's ongoing obligations.

At December 31, 2006, Skagit County reports positive balances in all three categories of net assets for the government as a whole as well as for governmental activities. Business-type activities report a negative balance in capital assets and a positive balance in unrestricted assets, with no restricted assets. The negative balance in capital assets is the result of the closure and demolition of the incinerator in 1994 and 2000 respectively in the Solid Waste Fund with the underlying debt remaining as a liability of the fund.

Statement of Changes in Net Assets

The County's total net assets decreased by \$3.2 million in 2006. Governmental activities showed a decrease of \$4.1 million while business-type activities showed an increase of \$0.9 million. Key elements in changes in net assets are shown in the following table:

Skagit County Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$15,888,593	\$13,875,744	\$9,793,411	\$9,552,003	\$ 25,682,004	\$ 23,427,747
Operating Grants and Contributions	16,196,475	14,843,903	246,250	232,330	16,442,725	15,076,233
Capital Grants and Contributions	6,623,961	7,721,163	-	-	6,623,961	7,721,163
General Revenues:						
Taxes	51,282,667	46,529,681	-	-	51,282,667	46,529,681
Interest Earnings on Investments	3,183,945	1,878,787	192,586	154,382	3,376,531	2,033,169
Gain/(Loss) on Sale of Assets	417,575	(4,636,036)	-	-	417,575	(4,636,036)
Special Item	-	-	-	-	-	-
Total Revenues	<u>93,593,216</u>	<u>80,213,242</u>	<u>10,232,247</u>	<u>9,938,715</u>	<u>103,825,463</u>	<u>90,151,957</u>

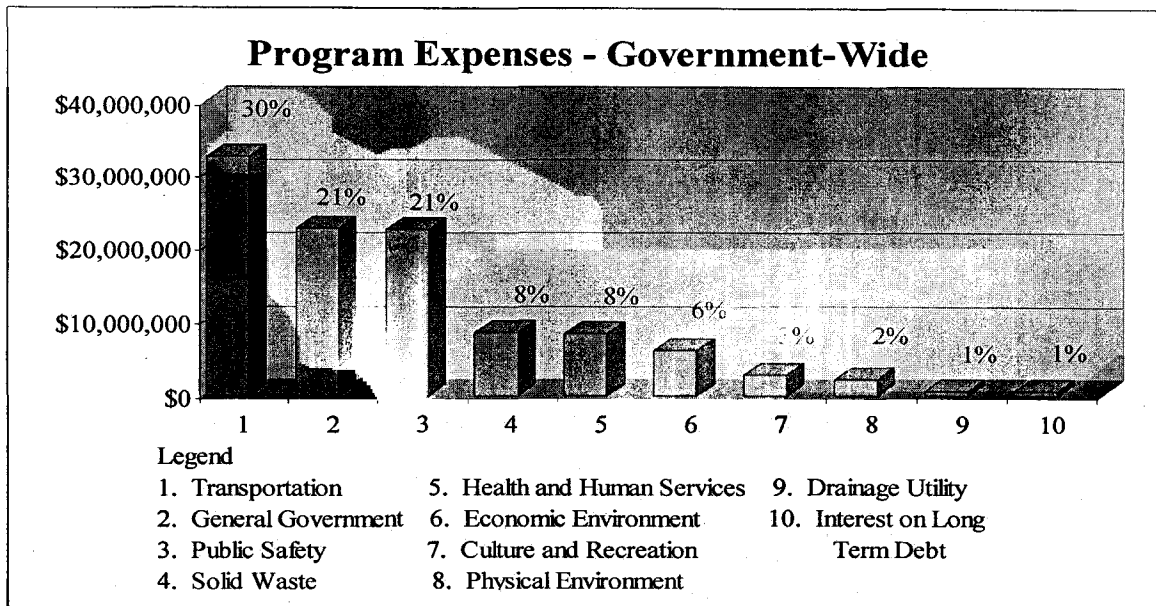
Program Expenses:

General Government	22,760,258	24,063,135	-	-	22,760,258	24,063,135
Public Safety	22,496,619	21,022,495	-	-	22,496,619	21,022,495
Physical Environment	2,161,454	2,680,477	-	-	2,161,454	2,680,477
Transportation	32,499,589	31,030,917	-	-	32,499,589	31,030,917
Economic Environment	6,149,970	7,346,469	-	-	6,149,970	7,346,469
Health and Human Services	8,409,308	6,688,020	-	-	8,409,308	6,688,020
Culture and Recreation	2,809,835	2,721,796	-	-	2,809,835	2,721,796
Solid Waste	-	-	8,548,400	8,744,612	8,548,400	8,744,612
Drainage Utility	-	-	644,188	769,880	644,188	769,880
Interest on Long Term Debt	544,820	523,482	-	-	544,820	523,482
Total Expenses Before Transfers	<u>97,831,853</u>	<u>96,076,791</u>	<u>9,192,588</u>	<u>9,514,492</u>	<u>107,024,441</u>	<u>105,591,283</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,238,637)	(15,863,549)	1,039,659	424,223	(3,198,978)	(15,439,326)
Transfers	<u>180,761</u>	<u>121,677</u>	<u>(180,761)</u>	<u>(121,677)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(4,057,876)	(15,741,872)	858,898	302,546	(3,198,978)	(15,439,326)
Net Assets as of January 1	412,855,424	428,597,290	3,883,165	3,580,620	416,738,589	432,177,907
Prior Period Adjustment	<u>(81,213)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(81,213)</u>	<u>-</u>
Net Assets of Jan 1, Restated	412,774,211	428,597,290	3,883,165	3,580,620	416,657,376	432,177,910
Net Assets as of December 31	<u>\$408,716,335</u>	<u>\$412,855,424</u>	<u>\$4,742,063</u>	<u>\$3,883,167</u>	<u>\$413,458,398</u>	<u>\$416,738,589</u>

Total revenues for Skagit County were \$103.8 million in 2006, an increase of \$13.7 million from 2005. Governmental activities provided \$93.6 million (90%), while business-type activities added \$10.2 million. This split had no significant change from 2005. Within governmental activities, tax revenue accounted for 54.8% of total revenue sources (compared to 58% in 2005), with grants and contributions accounting for 24.4% (down from 28.1% in 2005).

Of the \$10.2 million in business-type activities program revenues and interest earnings, 96% was provided by charges for services (the same as in 2005), with the remaining amount provided by grants, contributions, and interest income.

Expenses for the year totaled \$107 million, an increase of \$1.4 million over 2005. Governmental Activities accounted for \$97.8 million (91%), with the largest program expenses in the areas of transportation, general government, and public safety, respectively. These three programs accounted for 79% of total governmental expenses, the same as in 2005. Of the \$9.2 million in business-type expenses, 93% are associated with the solid waste program, a 1% increase from 2005. Following is a graph which illustrates by program where funds were spent in 2006.

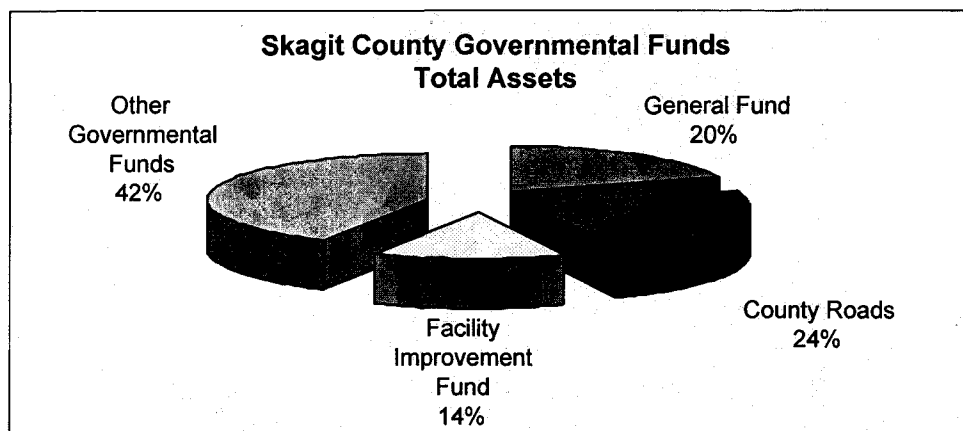


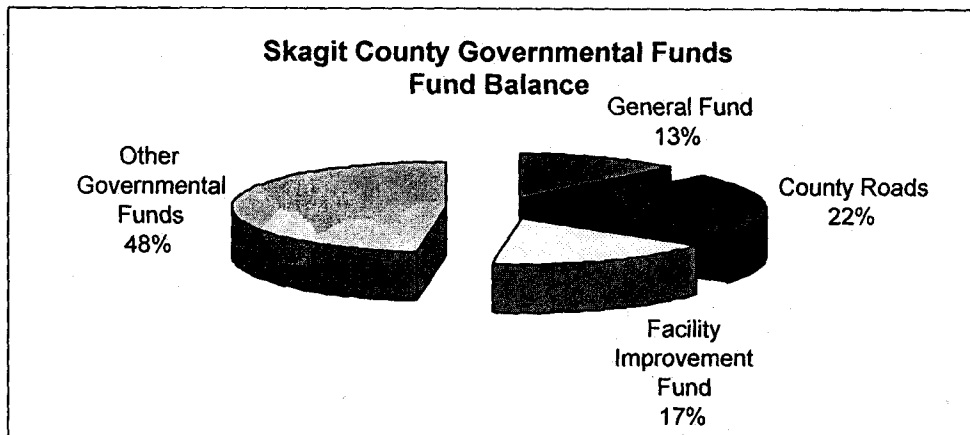
FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, Skagit County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following are financial analyses of the County's governmental and proprietary funds.

Governmental Funds Balance Sheet Analysis

The General Fund, County Road Fund, and Facility Improvement Fund are the County's major funds in 2006 (the Distressed County Public Facility Fund replaces the Facility Improvement Fund for 2005). Together these funds account for 58% of total governmental fund assets and 52% of total governmental fund balance.



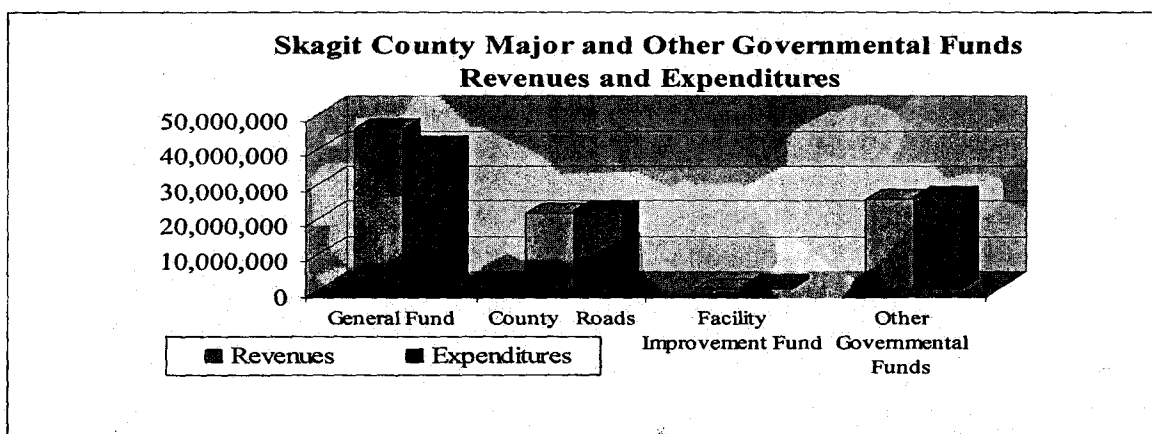


The focus of Skagit County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of December 31, 2006, the county's governmental funds reported combined fund balances of \$39.9 million, an increase from \$29.8 million in 2005. Of this total amount, over \$38 million (95%) is unreserved and available for spending within the designated funds. Reserved fund balance of \$1.9 million is not available for new spending because it has already been committed to prepaid expenses, loans, debt service, and petty cash.

The General Fund is the chief operating fund of Skagit County. On December 31, 2006, unreserved fund balance of the General Fund increased from \$3.8 million in 2005 to nearly \$4.5 million, while total fund balance increased from nearly \$4.1 million to over \$5 million. Total assets in the General Fund amounted to nearly \$10.2 million, accounting for 19.8% of total governmental fund assets, an increase in dollar amount from \$8.3 million (and a decrease in percentage - 21%) in 2005.

Governmental Funds Revenue/Expenditure Analysis

The following chart shows the revenue and expenditure amounts for the year ended December 31, 2006 for the three major governmental funds and for all other governmental funds.



The revenue indicators in the chart do not include one-time only financing sources, such as proceeds from new debt or the sale of assets. Total revenues for governmental funds increased by \$7.9 million in 2006, with the majority of the increase accounted for in Other Governmental Funds. During the same period, total expenditures increased over \$1.1 million. The General Fund accounted for a \$940,000 decrease, the County Road fund accounted for a \$3.8 million increase, with the remaining balance of \$1.7 million accounted for in the Facility Improvement Fund and other governmental funds. The General Fund and the County Road fund account for 72.3% of all governmental fund revenue (down from 74.5% in 2005) and 69% of all expenditures (up from 67% in 2005). The Facility Improvement Fund is considered a major fund by the merits of its total assets.

The net change in fund balance for the General Fund in 2006 was a positive \$1 million. The decrease in fund balance for the County Road fund was insignificant and due to the schedule of projects. The increase in fund balance for the Facility Improvement Fund was due to the issuance of bonds to construct or purchase capital facilities. Governmental funds had an overall positive net change in fund balance of nearly \$10.1 million for 2006.

Enterprise Funds Net Assets Analysis

Both of the enterprise funds of Skagit County, Solid Waste and the Drainage Utility, are considered major funds for 2006. The following table reflects the Proprietary Funds Statement of Net Assets as of December 31, 2006.

Skagit County Proprietary Fund Net Assets						
Business-Type Activities - Enterprise Funds						
	Solid Waste		Drainage Utility		Total	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current Assets						
Cash/Cash Equivalents	\$648,370	\$2,373,819	\$911,414	\$1,325,739	\$1,559,784	\$3,699,558
Other Current Assets	3,649,326	2,361,492	1,649,009	1,349,490	5,298,335	3,710,982
Total Current Assets	4,297,696	4,735,311	2,560,423	2,675,229	6,858,119	7,410,540
Noncurrent Assets						
Construction In Progress	54,224	36,113	792,041	543,065	846,265	579,178
Capital Assets	2,951,123	2,951,123	3,898,729	3,588,559	6,849,852	6,539,682
Less Accumulated Depreciation	(2,302,544)	(2,268,789)	(576,282)	(458,324)	(2,878,826)	(2,727,113)
Unamortised Issuance Costs	35,019	46,356	-	-	35,019	46,356
Total Noncurrent Assets	737,822	764,803	4,114,488	3,673,300	4,852,310	4,438,103
Total Assets	5,035,518	5,500,114	6,674,911	6,348,531	11,710,429	11,848,645
LIABILITIES AND FUND EQUITY						
Current Liabilities						
Accounts Payable and Other Current Liabilities	2,088,946	2,395,328	348,935	252,198	2,437,881	2,647,526
Total Current Liabilities	2,088,946	2,395,328	348,935	252,198	2,437,881	2,647,526
Noncurrent Liabilities						
Notes and Loans Payable	4,530,485	5,317,952	-	-	4,530,485	5,317,952
Other Noncurrent Liabilities	-	-	-	-	-	-
Total Noncurrent Liabilities	4,530,485	5,317,952	-	-	4,530,485	5,317,952
Total Liabilities	6,619,431	7,713,280	348,935	252,198	6,968,366	7,965,478

(Continued on next page)

**Skagit County
Proprietary Fund Net Assets**

Business-Type Activities - Enterprise Funds

	Solid Waste		Drainage Utility		Total	
	2006	2005	2006	2005	2006	2005
Net Assets						
Invested in Capital Assets, Net of Related Debt	(4,602,663)	(5,523,149)	4,114,488	3,673,300	(488,175)	(1,849,849)
Unrestricted	3,018,750	3,309,983	2,211,488	2,423,031	5,230,238	5,733,014
Total Net Assets	(\$1,583,913)	(\$2,213,166)	\$6,325,976	\$6,096,331	\$4,742,063	\$3,883,167

As of December 31, 2006, the County's enterprise funds reported combined net assets of \$4.74 million (compared to \$3.88 million in 2005), made up of a deficit of \$1.6 million in the Solid Waste fund (down from \$2.2 million in 2005) and a positive \$6.3 million in the Drainage Utility (up from \$6.1 million in 2005). The deficit in Solid Waste is due to the closure and demolition of the incinerator in 1994 and 2000 respectively, with the underlying debt remaining as a liability of the fund. The combined funds have net assets \$5.2 million unrestricted and available in accordance with the needs of the programs (compared to \$5.7 million in 2005).

Enterprise Funds Revenue/Expenditure Analysis

Revenues from the Solid Waste fund contributed 90% of the total revenues for enterprise funds in 2006, an increase from 89% in 2005. Following is a table which gives a condensed look at revenues, expenses and net change in fund balance for the enterprise funds.

Skagit County Enterprise Funds Revenues and Expenses

Business-Type Activities - Enterprise Funds

	Solid Waste		Drainage Utility		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Charges for Services	\$8,805,437	\$8,561,597	\$986,778	\$987,945	\$9,792,215	\$9,549,542
Intergovernmental	233,827	212,869	12,423	19,461	246,250	232,330
Interest Revenue	137,193	116,214	55,393	38,168	192,586	154,382
Miscellaneous Revenue	1,196	2,461	-	-	1,196	2,461
Total Operating Revenues	9,177,653	8,893,141	1,054,594	1,045,574	10,232,247	9,938,715
Expenditures						
Personal Services	1,440,702	1,498,450	210,600	138,531	1,651,302	1,636,981
Contractual Services	5,165,495	4,909,423	-	-	5,165,495	4,909,423
Other Supplies and Expenses	1,669,732	2,021,617	315,630	506,357	1,985,362	2,527,974
Depreciation	33,755	58,623	117,958	124,992	151,713	183,615
Loss on Disposition of Capital Assets	-	-	-	-	-	-
Interest Expense	238,716	256,499	-	-	238,716	256,499
Total Operating Expenditures	8,548,400	8,744,612	644,188	769,880	9,192,588	9,514,492
Income (Loss) Before Transfers	629,253	148,529	410,406	275,694	1,039,659	424,223
Capital Contributions	-	-	-	-	-	-
Interfund Transfers	-	-	(180,761)	(121,677)	(180,761)	(121,677)
Change in Net Assets	629,253	148,529	229,645	154,017	858,898	302,546
Total Net Assets - Beginning	(2,213,166)	(2,361,694)	6,096,331	5,942,315	3,883,165	3,580,620
Total Net Assets - Ending	(\$1,583,913)	(\$2,213,166)	\$6,325,976	\$6,096,331	\$4,742,063	\$3,883,167

Total expenses for the funds were nearly 90% of revenues, a decrease from 96% in 2005. The net positive change in net assets was \$0.9 million, an increase of nearly \$0.6 million from 2005. The most prominent reason for this increase is the reduction in the category Other Supplies and Expenses in the Solid Waste function.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund Changes in Budget

Differences between the original General Fund budget and the final amended budget for the total revenues were a little over \$860,000, an increase of 2%, while changes to total expenditures were more significant at \$1.2 million, an increase of 3%. The following table shows the changes between the original and the final General Fund budget as of December 31, 2006.

Skagit County, Washington
General Fund Changes in Budget
As of December 31, 2006

	2006		
	Original Budget	Final Budget	Changes Favorable (Unfavorable)
<u>Revenues</u>			
Taxes	\$27,257,503	\$27,257,503	\$0
Licenses & Permits	1,134,000	1,134,000	-
Intergovernmental Revenue	7,773,518	8,526,589	753,071
Charges for Goods and Services	4,400,324	4,400,324	-
Fines and Forfeits	1,512,650	1,620,503	107,853
Interest Revenue	1,883,705	1,884,224	519
Miscellaneous Revenues	-	-	-
Total Revenues	43,961,700	44,823,143	861,443
<u>Expenditures</u>			
General Government Services	22,076,975	22,372,961	(295,986)
Security of Persons and Property	15,238,659	16,144,467	(905,808)
Utilities and Environment	326,725	341,855	(15,130)
Economic Environment	2,998,211	3,013,711	(15,500)
Mental/Physical Health	247,619	248,119	(500)
Culture and Recreation	460,466	460,985	(519)
Capitalized Expenditures	-	-	-
Total Expenditures	41,348,655	42,582,098	(1,233,443)
Excess (Deficit) Revenues Over Expenditures	2,613,045	2,241,045	(372,000)
<u>Other Financing Sources (Uses)</u>			
Fixed Asset Dispositions	-	-	-
Operating Transfers In	10,000	10,000	-
Operating Transfers Out	(4,070,187)	(4,085,187)	(15,000)
Total Other Financing Sources (Uses)	(4,060,187)	(4,075,187)	(15,000)
Excess (Deficit) Resources Over Uses	(1,447,142)	(1,834,142)	(387,000)
Fund Balance, January 1	4,054,591	4,054,491	-
Fund Balance, December 31	\$2,607,449	\$2,220,449	(\$387,000)

Budgeted expenditure increases outpaced revenue increases by \$372,000 in 2006. The largest change in the revenue budget was an increase of \$753,000 in grants. The largest changes in the expenditure budget were for general government and the security of persons and property.

The General Fund shows a budget increase in expenditures in all programs. General Government Services accounts for 24% of the increase with security of persons and property accounting for more than 73%. The remainder was split among all other programs. Significant increases for the general fund budget are noted below:

- \$672,092 for activities funded by a Federal Safe Schools/Healthy Students grant awarded after preparation of the initial budget.
- \$107,853 for District Court for an increase in hours from 35 to 40 per week as well as a general wage adjustment.
- \$88,000 for the Prosecuting Attorney's office for travel and professional services to cover investigative and witness travel during trial with regards to the prosecution of a criminal case.
- \$95,000 for the Prosecuting Attorney's office for legal fees related to litigation and ongoing legal matters.
- \$100,000 for contracted attorneys in Assigned Counsel.
- \$646,528 transfer to the medical insurance sub-fund to make up for current year loss due to under-funding.

General Fund Budget to Actual

Total General Fund budgeted revenues of \$44.8 million were slightly under actual revenues received of \$45.7 million. The most notable variance is the increase in interest revenue from the budget to the actual. Other variances included the decrease from budget to actual in intergovernmental revenues. Of the \$1.5 million dollar variance, \$600,000 was due to timber revenues being less than budgeted. Of the remaining amount \$692,000 was due to revenue being budgeted as a grant but later determined to be a charge for goods and services. The remainder of the variance was split amongst various items.

The variances from budgeted expenditures in the categories of general government services and security of persons and property account for 43% and 41% of the total expenditure variance respectively. Economic environment accounts for 14%. The remaining 2% is spread among the remaining categories. Overall the general fund finished the year 4.4% under budget.

Skagit County, Washington
General Fund Changes - Budget vs Actual
As of December 31, 2006

	2006		Changes
	Final	Actual	Favorable
	Budget		(Unfavorable)
<u>Revenues</u>			
Taxes	\$27,257,503	\$27,564,592	\$307,089
Licenses & Permits	1,134,000	1,407,933	273,933
Intergovernmental Revenue	8,526,589	7,016,373	(1,510,216)
Charges for Goods and Services	4,400,324	5,343,863	943,539
Fines and Forfeits	1,620,503	1,740,805	120,302
Interest Revenue	1,884,224	2,635,359	751,135
Miscellaneous Revenues	-	2,811	2,811
Total Revenues	44,823,143	45,711,736	888,593
<u>Expenditures</u>			
General Government Services	22,372,961	21,555,105	817,856
Security of Persons and Property	16,144,467	15,369,212	775,255
Utilities and Environment	341,855	313,398	28,457
Economic Environment	3,013,711	2,749,735	263,976
Mental/Physical Health	248,119	243,341	4,778
Culture and Recreation	460,985	434,703	26,282
Capitalized Expenditures	-	22,541	(22,541)
Total Expenditures	42,582,098	40,688,035	1,894,063
Excess (Deficit) Revenues Over Expenditures	2,241,045	5,023,701	2,782,656
<u>Other Financing Sources (Uses)</u>			
Issuance of Long Term Debt	-	-	-
Fixed Asset Dispositions	-	674	674
Operating Transfers In	10,000	10,000	-
Operating Transfers Out	(4,085,187)	(4,074,183)	11,004
Total Other Financing Sources (Uses)	(4,075,187)	(4,063,509)	11,678
Excess (Deficit) Resources Over Uses	(1,834,142)	960,192	2,794,334
Fund Balance, January 1	4,054,591	4,054,591	-
Fund Balance, December 31	\$2,220,449	\$5,014,783	\$2,794,334

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Skagit County's total investment in capital assets, including construction in progress, for its governmental and business-type activities as of December 31, 2006, amounts to over \$365 million (net of accumulated depreciation and related debt). This investment in capital assets includes land, development rights, buildings, improvements, machinery and equipment, infrastructure, and construction in progress on buildings and improvements. Major capital asset events during the current fiscal year included the following:

- During 2006, Skagit County purchased development rights on 340.8 acres of farmland through the Farmland Legacy Program for nearly \$800,000. A total of 11 development rights were purchased. The program also protected an additional 78.9 acres through short plats.

Additional information on Skagit County's capital assets can be found in note IV.E of the Notes to the Financial Statements.

Long-Term Debt

At December 31, 2006, Skagit County had total bonded debt outstanding of nearly \$22.3 million (up from \$16.1 million in 2005). Of that, \$16.8 million (up from \$9.66 million) is classified as governmental activity and \$5.48 million (down from \$6.45 million) is classified as business-type activity. All is backed by the full faith and credit of the County.

Skagit County's total bonded debt had a net increase of \$6.16 million during 2006. The County's remaining capacity for non-voted debt at December 31, 2006 was approximately \$210 million. Additional information on the County's long-term debt can be found in Note V of the Notes to the Financial Statements.

ECONOMIC FACTORS

It was another great year for the Skagit County economy. There were more people employed in the community in 2006 than at any other point in history. The economy continued to gain strength from the expansion and success of the wood products, construction, aerospace, healthcare and marine industries.

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

- In November 1999, the voters in Washington approved Initiative 695, which eliminated the annual motor vehicle excise tax and replaced it with a \$30 annual fee on motor vehicles. Although this initiative was later ruled unconstitutional by the courts, the Legislature moved to enact the \$30 annual fee in special session. As a result, a portion of funding the County receives from the State for 2000 through 2002 was reduced by approximately \$2.7 million. The County received partial funding of approximately \$1.7 million over the same time period.
- Voters also approved Initiative 747, which capped property tax growth each year at a maximum of 1%, plus any additions for new construction. I-747 was required to be fully implemented beginning with 2002.
- In April of 2003, the voters approved a 1/10th of 1% increase in sales tax to fund emergency communication systems and facilities.

- In December 2005, the Board of County Commissioners signed an Ordinance implementing a 1/10th of 1% increase in sales and use tax for the purpose of providing funds for new and expanded chemical dependency or mental health treatment services and for the operation of new or expanded therapeutic court programs.

Requests for Information

This financial report is designed to provide a general overview of Skagit County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either of the following:

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

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

SKAGIT COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2006

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
ASSETS	Activities	Activities		
Cash/Cash Equivalents	\$20,092,382	\$1,559,784	\$21,652,166	\$2,160,191
Investments	26,242,517	4,549,072	30,791,589	0
Receivables	3,330,027	606,118	3,936,145	670,240
Due From Other Governments	3,537,334	101,032	3,638,366	456,990
Internal Balances	951,885	(951,885)	0	0
Inventories/Prepayments	5,707,368	29,313	5,736,681	0
Deferred Charges	0	35,019	35,019	0
Restricted Assets:				
Restricted for Debt Service:				
Cash/Cash Equivalents	26,234	0	26,234	0
Investments	1,192,805	0	1,192,805	0
Receivables	77,699	0	77,699	0
Capital Assets (Net of Depreciation)	376,327,997	3,971,026	380,299,023	862,713
Construction in Progress	0	846,265	846,265	0
Total Assets	<u>\$437,486,248</u>	<u>\$10,745,744</u>	<u>\$448,231,992</u>	<u>\$4,150,134</u>
LIABILITIES				
Liabilities				
Accounts Payable and Other Current Liabilities	\$3,127,372	\$518,356	\$3,645,728	\$42,920
Claims Payable	\$1,266,480	\$0	\$1,266,480	
Accrued Liabilities	1,926,962	90,770	2,017,732	165,156
Due to Other Governments	743,121	0	743,121	794
Long Term Liabilities:				
Other Due Within One Year	2,606,176	864,070	3,470,246	0
Other Due In More Than One Year	19,099,802	4,530,485	23,630,287	214,089
Total Liabilities	<u>\$28,769,913</u>	<u>\$6,003,681</u>	<u>\$34,773,594</u>	<u>\$422,959</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$366,147,997	(\$488,175)	\$365,659,822	\$862,713
Restricted for:				
General Government	3,449,631	0	3,449,631	0
Public Safety	1,046,860	0	1,046,860	0
Physical Environment	868,914	0	868,914	0
Transportation	8,844,870	0	8,844,870	0
Economic Environment	5,387,983	0	5,387,983	0
Health & Human Services	1,696,350	0	1,696,350	0
Culture and Recreation	106,866	0	106,866	0
Debt Service	1,214,552	0	1,214,552	0
Unrestricted (Deficit)	19,952,312	5,230,238	25,182,550	2,864,462
Total Net Assets	<u>\$408,716,335</u>	<u>\$4,742,063</u>	<u>\$413,458,398</u>	<u>\$3,727,175</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON

Statement of Activities

December 31, 2006

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$22,760,258	\$5,589,012	\$4,578,258		(\$12,592,988)	\$0	(\$12,592,988)	\$0
Public Safety	22,496,619	1,384,252	3,439,725		(17,672,642)	0	(17,672,642)	0
Physical Environment	2,161,454	351,242	558,401		(1,251,811)	0	(1,251,811)	0
Transportation	32,499,589	3,996,397	730,174	6,352,900	(21,420,118)	0	(21,420,118)	0
Economic Environment	6,149,970	2,768,354	671,369		(2,710,247)	0	(2,710,247)	0
Health and Human Services	8,409,308	838,835	6,045,355		(1,525,118)	0	(1,525,118)	0
Culture and Recreation	2,809,835	960,501	173,193	271,061	(1,405,080)	0	(1,405,080)	0
Interest on Long Term Debt	544,820				(544,820)	0	(544,820)	0
Total Governmental Activities	<u>\$97,831,853</u>	<u>\$15,888,593</u>	<u>\$16,196,475</u>	<u>\$6,623,961</u>	<u>(\$59,122,824)</u>	<u>\$0</u>	<u>(\$59,122,824)</u>	<u>\$0</u>
Business-Type Activities								
Solid Waste	\$8,548,400	\$8,806,633	\$233,827	\$0	\$0	\$492,060	\$492,060	\$0
Drainage Utility	644,188	986,778	12,423	0	0	355,013	355,013	0
Total Business-Type Activities	<u>9,192,588</u>	<u>9,793,411</u>	<u>246,250</u>	<u>\$0</u>	<u>\$0</u>	<u>\$847,073</u>	<u>\$847,073</u>	<u>\$0</u>
Total Primary Government	<u>\$ 107,024,441</u>	<u>\$ 25,682,004</u>	<u>\$ 16,442,725</u>	<u>\$ 6,623,961</u>	<u>\$ (59,122,824)</u>	<u>\$ 847,073</u>	<u>\$ (58,275,751)</u>	<u>\$0</u>
Component Unit								
Emergency Medical Services Commission	\$ 5,053,404	\$ 2,934,316	\$ 1,793,118	\$0	\$0	\$0	\$0	\$ (325,970)
Total Component Unit	<u>\$ 5,053,404</u>	<u>\$ 2,934,316</u>	<u>\$ 1,793,118</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ (325,970)</u>
General Revenues								
Taxes								
Property					\$30,847,043	\$0	\$30,847,043	\$0
Sales					14,454,242	0	14,454,242	0
Other					5,981,382	0	5,981,382	0
Interest and Investment earnings					3,183,945	192,586	3,376,531	59,925
Gain/(Loss) on Sales of Capital Assets					417,575	0	417,575	0
Transfers					180,761	(180,761)	0	0
Total General Revenues and Transfers					<u>\$55,064,948</u>	<u>\$11,825</u>	<u>\$55,076,773</u>	<u>\$59,925</u>
Change in Net Assets					<u>\$ (4,057,876)</u>	<u>\$858,898</u>	<u>\$ (3,198,978)</u>	<u>\$ (266,045)</u>
Net Assets as of January 1					412,855,424	3,883,165	416,738,589	3,993,220
Prior period adjustment					(81,213)	-	(81,213)	
Net Assets adjusted - January 1					<u>412,774,211</u>	<u>3,883,165</u>	<u>416,657,376</u>	
Net Assets - December 31					<u>\$408,716,335</u>	<u>\$4,742,063</u>	<u>\$413,458,398</u>	<u>\$3,727,175</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON

Balance Sheet Governmental Funds December 31, 2006

	Major Funds			Other	
	General	County	Facility	Governmental	Total
	Fund	Roads	Improvement	Funds	
			Fund		
ASSETS					
Cash/Cash Equivalents	\$5,597,704	\$3,605,115	\$179	\$8,332,996	\$17,535,994
Investments	0	5,570,441	7,198,772	10,933,216	23,702,429
Taxes Receivable	528,071	263,453	0	101,167	892,691
Accounts Receivable	1,214,899	961,842	0	478	2,177,219
Interest Receivable	178,229	0	0	0	178,229
Due From Other Funds	1,058,665	916,051	0	369,652	2,344,368
Due From Other Governmental Units	874,420	832,769	0	1,804,287	3,511,476
Interfund Loans Receivable	427,500	0	0	0	427,500
Inventories/Prepayments	285,536	80,952	213	197,787	564,488
Total Assets	\$10,165,024	\$12,230,623	\$7,199,164	\$21,739,583	\$51,334,394
LIABILITIES AND FUND BALANCES					
<u>Liabilities</u>					
Accounts/Vouchers Payable	\$542,167	\$1,346,705	\$221,653	\$787,939	\$2,898,464
Due To Other Funds	1,637,822	1,493,465	0	257,065	3,388,352
Due To Other Governmental Units	18,256	0	0	724,865	743,121
Accrued Wages Payable	857,562	202,383	1,673	203,255	1,264,873
Accrued Employee Benefits	291,976	74,193	525	73,157	439,851
Custodial Accounts	12,642	22,362	0	77,957	112,961
Deferred Revenue	1,789,815	263,453	0	101,167	2,154,435
Long-Term Interfund Loans Payable	0	0	0	427,500	427,500
Total Liabilities	\$5,150,240	\$3,402,561	\$223,851	\$2,652,905	\$11,429,557
<u>Fund Balance</u>					
Reserved for:					
Prepaid Items	\$104,953	\$26,311	\$213	\$26,729	\$158,206
Reserved for Loans Receivable	427,500	0	0	0	427,500
Debt Service	0	0	0	1,214,492	1,214,492
Reserved for Petty Cash	20,730	1,600	0	55,841	78,171
Unreserved, Undesignated, Reported in:					
General Fund	4,461,601	0	0	0	4,461,601
Special Revenue Funds	0	8,800,151	0	9,826,161	18,626,312
Capital Project Funds	0	0	6,975,100	7,963,455	14,938,555
Total Fund Balances	\$5,014,784	\$8,828,062	\$6,975,313	\$19,086,678	\$39,904,837
Total Liabilities and Fund Balances	\$10,165,024	\$12,230,623	\$7,199,164	\$21,739,583	\$51,334,394

See accompanying notes to the financial statements

Skagit County, Washington
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
For the Year Ended December 31, 2006

Total fund balances as shown on the Governmental Fund Balance Sheet	\$39,904,837
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. This amount reflects the initial investment in capital assets net of depreciation at 12/31/2006. (This amount does not include internal service fund capital assets, which are included as a reconciling item in a note found below.)	369,180,212
Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.	2,310,201
Internal Service Funds are used to charge the costs of services to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets.	18,605,145
Long-term liabilities that are not due and payable in the current period and are not reported in the funds.	(21,284,060)
Total net assets as reported on the Statement of Net Assets:	\$408,716,335

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2006

	Major Funds			Other Governmental Funds	Total
	General Fund	County Roads	Facility Improvement Fund		
Revenues					
Property Taxes	\$17,337,082	\$9,931,118	\$0	\$3,482,830	\$30,751,030
Sales and Use Taxes	8,224,758	0	0	6,229,484	14,454,242
Other Taxes	2,002,752	335,470	0	3,643,160	5,981,382
Licenses and Permits	1,407,933	43,082	0	277,990	1,729,005
Intergovernmental	7,016,373	6,929,004	0	8,468,328	22,413,705
Charges for Services	5,343,863	3,900,139	0	2,111,351	11,355,353
Fines and Forfeits	1,740,805	0	0	236,120	1,976,925
Interest Earnings	2,245,232	341,144	29,229	412,574	3,028,179
Donations	87,928	0	0	318,803	406,731
Other Revenues	305,010	55,231	0	543,938	904,179
Total Revenues	\$45,711,736	\$21,535,188	\$29,229	\$25,724,578	\$93,000,731
Expenditures					
Current:					
General Governmental Services	\$21,554,971	\$359,376	\$0	\$575,994	\$22,490,341
Public Safety	15,368,699	0	0	7,385,981	22,754,680
Utilities and Environment	314,261	0	0	1,901,741	2,216,002
Transportation	0	21,657,018	0	34,741	21,691,759
Economic Environment	2,749,735	0	0	3,407,259	6,156,994
Health and Human Services	243,341	0	0	8,157,217	8,400,558
Culture and Recreation	434,703	0	0	2,342,238	2,776,941
Debt Service:					
Principal	0	0	0	574,151	574,151
Interest	0	0	0	503,345	503,345
Capital Outlay	22,325	484,261	1,382,845	1,711,338	3,600,769
Total Expenditures	\$40,688,035	\$22,500,655	\$1,382,845	\$26,594,005	\$91,165,540
Excess (Deficit) Revenues Over Expenditures	\$5,023,701	(\$965,467)	(\$1,353,616)	(\$869,427)	\$1,835,191
Other Financing Sources (Uses)					
Issuance of Long Term Debt	\$0	\$0	\$7,629,392	\$502,830	\$8,132,222
Proceeds of Sale of Capital Assets	674	0	0	0	674
Transfers In	10,000	0	978,337	6,310,897	7,299,234
Transfers Out	(4,074,183)	(605,252)	0	(2,439,038)	(7,118,473)
Total Other Financing Source (Uses)	(\$4,063,509)	(\$605,252)	\$8,607,729	\$4,374,689	\$8,313,657
Net Change in Fund Balance	\$960,191	(\$1,570,719)	\$7,254,113	\$3,505,262	\$10,148,847
Fund Balance-January 1	4,054,591	10,398,781	(278,800)	15,662,625	29,837,197
Prior Period Adjustment	0	0	0	(81,213)	(81,213)
Fund Balance as of Jan 1 restated	4,054,591	10,398,781	(278,800)	15,581,412	29,755,984
Fund Balance-December 31	\$5,014,782	\$8,828,062	\$6,975,313	\$19,086,678	\$39,904,837

See accompanying notes to the financial statements

Skagit County, Washington
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For Year Ended December 31, 2006

Net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance:	\$10,148,847
Governmental funds report capital outlays as expenditures and proceeds from the sale of capital assets as revenues. In the Statement of Activities, the cost of those assets is capitalized and depreciated over the period of the asset's useful life. When capital assets are disposed of, the difference between the original cost and depreciation and the proceeds are booked as gain or (loss) on the sale. This entry takes into account the differences in how capital assets are treated between the Statement of Activities and the governmental fund statements.	(7,960,724)
Internal Service Fund expenses are allocated to other funds. The net expense of certain internal service fund activities is reported with governmental activities on the Statement of Activities	1,264,577
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This entry is the net effect of these differences in the treatment of long-term debt issuance and payments.	(7,505,395)
Governmental funds report revenue in the current period for revenues deferred in prior periods since they were not available financing sources at the time. Government-wide statements record revenues at the time they are earned. This amount accounts for the change in deferred revenues during 2006.	174,910
Some expenses reported in the statement of activities do not require the use of current financial resources and, accordingly, are not reported as expenditures in governmental funds.	(180,091)
Change in net assets as reflected in the Statement of Activities	(\$4,057,876)

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2006

	Original Budget	Final Budget	ACTUAL	Variance with Final Budget Positive/ (Negative)
REVENUES:				
Taxes	\$27,257,503	\$27,257,503	\$27,564,592	\$307,089
Licenses & Permits	1,134,000	1,134,000	1,407,933	273,933
Intergovernmental Revenue	7,773,518	8,526,589	7,016,373	(1,510,216)
Charges for Goods and Services	4,400,324	4,400,324	5,343,863	943,539
Fines and Forfeits	1,512,650	1,620,503	1,740,805	120,302
Interest Revenue	1,415,600	1,415,600	2,245,232	829,632
Miscellaneous Revenues	468,105	468,624	392,938	(75,686)
TOTAL REVENUES	\$43,961,700	\$44,823,143	\$45,711,736	\$888,593
EXPENDITURES:				
General Government Services	\$22,076,975	\$22,372,961	\$21,554,971	\$817,990
Security of Persons and Property	15,238,659	16,144,467	15,368,699	775,768
Utilities and Environment	326,725	341,855	314,261	27,594
Economic Environment	2,998,211	3,013,711	2,749,735	263,976
Mental/Physical Health	247,619	248,119	243,341	4,778
Culture and Recreation	460,466	460,985	434,703	26,282
Capitalized Expenditures	0	0	22,325	(22,325)
TOTAL EXPENDITURES	\$41,348,655	\$42,582,098	\$40,688,035	\$1,894,063
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$2,613,045	\$2,241,045	\$5,023,701	\$2,782,656
OTHER FINANCING SOURCES (USES):				
Issuance of Long Term Debt			\$0	\$0
Fixed Asset Dispositions			674	674
Transfers In	10,000	10,000	10,000	0
Transfers Out	(4,070,187)	(4,085,187)	(4,074,183)	11,004
TOTAL OTHER FINANCING SOURCES (USES)	(\$4,060,187)	(\$4,075,187)	(\$4,063,509)	\$11,678
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(\$1,447,142)	(\$1,834,142)	\$960,191	\$2,794,334
FUND BALANCES:				
Fund Balance, January 1	\$4,054,591	\$4,054,591	\$4,054,591	\$0
FUND BALANCE, DECEMBER 31	\$2,607,449	\$2,220,449	\$5,014,782	\$2,794,334

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
County Roads
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues				
General Property Taxes	\$9,535,930	\$9,535,930	\$9,931,118	\$395,188
Timber Harvest Taxes	175,000	175,000	285,394	110,394
Excise Taxes	30,000	30,000	50,076	20,076
Total Taxes	\$9,740,930	\$9,740,930	\$10,266,588	\$525,658
Licenses and Permits	\$22,583	\$22,583	\$43,082	\$20,499
Intergovernmental	9,056,352	9,056,352	6,929,004	(2,127,348)
Charges for Services	4,124,713	4,124,713	3,900,139	(224,574)
Interest Earnings	100,750	100,750	341,144	240,394
Other Revenues	168,349	168,349	55,231	(113,118)
Total Revenues	\$23,213,677	\$23,213,677	\$21,535,188	(\$1,678,489)
Expenditures				
General Governmental Services	\$122,819	\$122,819	\$359,376	(\$236,557)
Transportation	25,434,543	25,634,543	21,657,018	3,977,525
Capital Outlay	769,200	769,200	484,261	284,939
Total Expenditures	\$26,326,562	\$26,526,562	\$22,500,655	\$4,025,907
Excess (Deficit) Revenues Over Expenditures	(\$3,112,885)	(\$3,312,885)	(\$965,467)	\$2,347,418
Other Financing Sources (Uses)				
Operating Transfers Out	(\$299,157)	(\$899,612)	(\$605,252)	\$294,360
Total Other Financing Source (Uses)	(\$299,157)	(\$899,612)	(\$605,252)	\$294,360
Net Change in Fund Balance	(\$3,412,042)	(\$4,212,497)	(\$1,570,719)	\$2,641,778
Fund Balance-January 1	10,398,781	10,398,781	10,398,781	-
Fund Balance-December 31	\$6,986,739	\$6,186,284	\$8,828,062	\$2,641,776

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON

Statement of Net Assets

Proprietary Funds

December 31, 2006

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
ASSETS				
<u>Current Assets</u>				
Cash/Cash Equivalents	\$648,370	\$911,414	\$1,559,784	\$2,582,622
Investments	2,939,447	1,609,625	4,549,072	3,732,893
Accounts Receivable	582,094	24,024	606,118	3,821
Due From Other Funds	1,131	11,669	12,800	3,390,278
Due from Other Governmental Units	101,032	0	101,032	25,857
Inventories/Prepayments	25,622	3,691	29,313	5,142,880
Total Current Assets	<u>\$4,297,696</u>	<u>\$2,560,423</u>	<u>\$6,858,119</u>	<u>\$14,878,350</u>
<u>Noncurrent Assets</u>				
Capital Assets				
Land	\$448,129	\$191,181	\$639,310	\$0
Buildings	1,825,299	0	1,825,299	180,888
Improvements Other Than Buildings	59,918	3,701,579	3,761,497	0
Machinery and Equipment	617,777	5,969	623,746	14,851,585
Less Accumulated Depreciation	(2,302,544)	(576,282)	(2,878,826)	(7,884,688)
Construction In Progress	54,224	792,041	846,265	0
Unamortised Issuance Costs	35,019	0	35,019	0
Total Noncurrent Assets	<u>\$737,822</u>	<u>\$4,114,488</u>	<u>\$4,852,310</u>	<u>\$7,147,785</u>
Total Assets	<u>\$5,035,518</u>	<u>\$6,674,911</u>	<u>\$11,710,429</u>	<u>\$22,026,136</u>
LIABILITIES AND FUND EQUITY				
<u>Current Liabilities</u>				
Accounts/Vouchers Payable	\$474,653	\$43,703	\$518,356	\$1,777,304
Due to other Funds	674,307	290,378	964,685	1,394,408
Interest Payable	15,363	0	15,363	0
Accrued Wages Payable	43,619	7,763	51,382	81,422
Accrued Employee Benefits	14,896	2,311	17,207	27,573
Accrued Taxes Payable	6,818	0	6,818	282
Bonds Payable	810,000	0	810,000	0
Compensated Absences	49,290	4,780	54,070	140,002
Total Current Liabilities	<u>\$2,088,946</u>	<u>\$348,935</u>	<u>\$2,437,881</u>	<u>\$3,420,991</u>
<u>Noncurrent Liabilities</u>				
Notes and Loans Payable	\$4,530,485	\$0	\$4,530,485	\$0
Total Noncurrent Liabilities	<u>\$4,530,485</u>	<u>\$0</u>	<u>\$4,530,485</u>	<u>\$0</u>
Total Liabilities	<u>\$6,619,431</u>	<u>\$348,935</u>	<u>\$6,968,366</u>	<u>\$3,420,991</u>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	(\$4,602,663)	\$4,114,488	(\$488,175)	\$7,147,785
Unrestricted	3,018,750	2,211,488	5,230,238	11,457,360
Total Net Assets	<u>(\$1,583,913)</u>	<u>\$6,325,976</u>	<u>\$4,742,063</u>	<u>\$18,605,145</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year December 31, 2006

	Business - Type Activities - Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Services
<u>Operating Revenues</u>				
Charges for Services	\$8,805,437	\$986,778	\$9,792,215	\$18,647,458
Other Operating Revenue	0	0	0	220,480
Total Operating Revenues	\$8,805,437	\$986,778	\$9,792,215	\$18,867,938
<u>Operating Expenditures</u>				
Personal Services	\$1,440,702	\$210,600	\$1,651,302	\$2,884,585
Contractual services	5,165,495	0	5,165,495	3,409,120
Other Supplies and Expenses	1,669,732	315,630	1,985,362	4,091,352
Depreciation	33,755	117,958	151,713	1,039,186
Payment to Claimants	0	0	0	6,460,876
Total Operating Expenditures	\$8,309,684	\$644,188	\$8,953,872	\$17,885,118
Operating Income (Loss)	\$495,753	\$342,590	\$838,343	\$982,820
<u>Non-Operating Revenue (Expenses)</u>				
Intergovernmental	\$233,827	\$12,423	\$246,250	(\$40,639)
Interest Revenue	137,193	55,393	192,586	153,281
Miscellaneous Revenue	1,196	0	1,196	23,000
Gain (Loss) on Disposition of Capital Asset	0	0	0	(20,465)
Interest Expense	(238,716)	0	(238,716)	0
Miscellaneous Expense	0	0	0	(55,553)
Total Non-Operating Revenue (Expenses)	\$133,500	\$67,816	\$201,316	\$59,624
Income (Loss) before Contributions and Transfers	\$629,253	\$410,406	\$1,039,659	\$1,042,443
Capital Contributions	0	0	0	222,134
Transfers Out	0	(180,761)	(180,761)	0
Change in Net Assets	\$629,253	\$229,645	\$858,898	\$1,264,577
Net Assets as of January 1	(2,213,166)	6,096,331	3,883,165	17,340,568
Net Assets as of December 31	(\$1,583,913)	\$6,325,976	\$4,742,063	\$18,605,145

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year December 31, 2006

	Business - Type Activities - Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Services
Cash Flows From Operating Activities:				
Receipts from Customers	\$9,162,736	\$988,508	\$10,151,244	\$1,177,574
Receipts from Interfund Services Provided	0	0	0	13,846,096
Miscellaneous Receipts	0	0	0	4,093,038
Payments to Employees	(1,448,130)	(238,471)	(1,686,601)	(2,873,500)
Payments to Suppliers	(5,942,055)	(132,773)	(6,074,828)	(13,576,867)
Payments for Interfund Services Used	(1,028,810)	(91,509)	(1,120,319)	(1,420,475)
Miscellaneous Receipts	1,196	0	1,196	(3,859)
Net cash provided (used) by operating activities	<u>\$744,937</u>	<u>\$525,755</u>	<u>\$1,270,692</u>	<u>\$1,242,007</u>
Cash Flows From Noncapital Financing Activities:				
Operating Grants Received	\$220,621	\$31,885	\$252,506	\$0
Transfers to Other Funds	0	(147,927)	(147,927)	0
Transfers from Other Funds	0	(9,971)	(9,971)	0
Net cash provided (used) by noncapital financing activities	<u>\$220,621</u>	<u>(\$126,013)</u>	<u>\$94,608</u>	<u>\$0</u>
Cash Flows From Capital And Related Financing Activities				
Purchases of capital assets	(\$18,110)	(\$559,146)	(\$577,256)	(1,278,729)
Proceeds from sale of capital assets	0	0	0	74,941
Principal Paid on Capital Debt	(970,000)	0	(970,000)	0
Interest Paid on Capital Debt	(206,698)	0	(206,698)	0
Net cash provided (used) by capital and related financing activities	<u>(\$1,194,808)</u>	<u>(\$559,146)</u>	<u>(\$1,753,954)</u>	<u>(\$1,203,788)</u>
Cash Flows From Investing Activities:				
Interest Earnings	\$137,193	\$55,392	\$192,585	\$153,281
Net Cash Provided by Investing Activities	<u>\$137,193</u>	<u>\$55,392</u>	<u>\$192,585</u>	<u>\$153,281</u>
Net Increase in Cash & Cash Equivalents	(\$92,057)	(\$104,012)	(\$196,069)	\$191,499
Balances as of January 1	<u>3,679,874</u>	<u>2,625,050</u>	<u>6,304,924</u>	<u>6,123,815</u>
Balances as of December 31	<u><u>\$3,587,817</u></u>	<u><u>\$2,521,038</u></u>	<u><u>\$6,108,855</u></u>	<u><u>\$6,315,314</u></u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year December 31, 2006

	<u>Business - Type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Services</u>
	<u>Solid Waste</u>	<u>Drainage Utility</u>	<u>Total</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Operating Income/(Loss)	<u>\$495,753</u>	<u>\$342,590</u>	<u>\$838,343</u>	<u>\$982,820</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Loss (gain) on asset disposal				20,465
Depreciation Expense	\$33,755	\$117,958	\$151,713	\$1,039,186
Miscellaneous Receipts	1,195	0	1,195	(76,017)
Changes in assets and liabilities:				
Receivables, net	356,178	1,731	357,909	(917,069)
Prepayments	1,465	(426)	1,039	269,028
Inventories	0	0	0	(3,423)
Accounts and other payables	(143,409)	63,902	(79,507)	(72,983)
Net Cash Provided by Operating Activities	<u>\$744,937</u>	<u>\$525,755</u>	<u>\$1,270,692</u>	<u>\$1,242,007</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31,2006

ASSETS	Agency Funds
Cash	\$27,344,767
Investments	208,511,200
Taxes receivable	2,340,445
Deposits	0
TOTAL ASSETS	\$238,196,412
LIABILITIES	
Warrants payable	\$16,468,003
Custodial accounts	221,728,409
TOTAL LIABILITIES	\$238,196,412
NET ASSETS	\$0

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON

Notes to the Financial Statements For the Year Ended December 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Skagit County have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The chart of accounts conforms to the Budgeting, Accounting, and Reporting Systems (BARS) prescribed by the office of the State Auditor, to promote uniformity among the cities and counties of Washington resulting in better comparability. The significant accounting policies are described below.

A. Reporting Entity

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

The GASB Statement 14 establishes the standards for defining and reporting on the financial reporting entity and applies to the primary government as well as to separately issued financial statements of governmental component units. The Statement defines the reporting entity as consisting of the primary government and organizations for which the primary government is financially accountable. Fiscal accountability is defined as a situation in which the primary government has substantive authority to appoint a voting majority of a components governing board and it is either able to impose its will or there is a potential for the component to provide specific financial benefits to, or to impose specific financial burdens on the primary government.

Discretely Presented Component Unit

The Skagit County Emergency Medical Services Commission was effectively established on April 1, 2003 by ordinance of the Board of County Commissioners. The EMS was established pursuant to the Revised Code of Washington 35.21.730 and 36.01.095. The purpose of the commission is to provide efficient and effective emergency medical and related services throughout Skagit County in compliance with state law. Skagit County is funding the EMS with an excess property tax levy approved by the voters through 2012. The Board of County Commissioners appoints the members of the EMS board and has final approval on the EMS operating budget.

More information concerning the EMS Commission, including complete financial statements can be obtained at the EMS offices in Mt. Vernon, Washington.

B. Government-Wide and Fund Financial Statements

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

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

Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and b) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All governmental funds are presented using the flow of "current financial resources" measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 30 days of the end of the fiscal period. Revenues susceptible to accrual are earned interest, certain charges for services and intergovernmental revenues such as grants, where program expenditures are the prime factor for determining reimbursement. Other revenues, such as sales based taxes, licenses and fines and fees, are not considered susceptible for accrual since they are not generally measurable until received. Expenditures are generally recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Skagit County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It is used to account for all activities of the general government not accounted for in another fund.
- The County Road Fund accounts for the design, construction, and maintenance of County roads.
- The Facility Improvement Fund is used to provide for expenditures incurred in capital projects.

Skagit County reports two major proprietary funds:

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

Additionally, the County reports the following fund types:

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

Private sector standards of accounting and financial reports issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The County has elected not to apply subsequent private-sector guidance.

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

Amounts reported as program revenues include a) charges to customers or applicants for goods, services or privileges provided, b) operating grants and contributions and c) capital grants and contributions, including special assessments.

Internally, dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Solid Waste Fund and the Drainage Utility Fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of personal services, contractual services, other supplies and expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Cash and Cash Equivalents

Only cash in checking accounts and petty cash are recorded as cash on the financial statements. All demand deposits are recorded as investments. In the preparation of the statement of cash flows, cash and cash equivalents include not only "cash on hand", but cash with a fiscal agent and cash in demand deposits with maturity of three months or less (See Note IV). All deposits are stated at cost.

It is the County's policy to invest all cash surpluses. As of December 31, 2006, the Treasurer was holding \$51,091,703 in short-term residual investments of surplus cash (See Note IV). This amount is classified on the balance sheet as cash and cash equivalents in various funds.

The interest on these investments is credited to the General Fund, except where prohibited by statute or bond covenant.

2. Investments at Cost — See Note IV.

3. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Interfund balances between governmental funds and proprietary funds have been eliminated and were not included in the government-wide statement of net assets.

Taxes Receivable consists of property taxes and related interest and penalties accumulated from the previous years. All real property taxes are secured by liens on the corresponding property.

Accounts Receivable consists of amounts owed from private individuals for goods or services. The significant sources are time payments on the courts assessments. All receivables have been recorded net of estimated uncollectible amounts. Uncollectible court-related receivables are estimated to be 76%.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

Interest Receivable consists of amounts earned on investments at the end of the year, and fair value changes in accordance with GASB 31 (Accounting and Financial Reporting for Certain Investments and for External Investment Pools) are included.

4. Inventories and Prepayments

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

Inventories in the Equipment Rental and Revolving Fund are valued at average weighted cost method. Inventories are valued by the first-in first-out method.

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

5. Capital Assets

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

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

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

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

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

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

- Buildings – 6 to 40 years
- Improvements – 15 to 40 years
- Furniture and Equipment – 5 to 20 years
- Information Technology Equipment – 3 to 20 years
- Vehicles – 4 to 21 years
- Infrastructure – 20 to 50 years

6. Compensated Absences

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

County employees receive vacation and sick leave monthly at rates established by County resolution or union contract. At termination of employment, employees with required length of service may receive cash payment for all accumulated vacation leave up to a maximum of 30 days. The payment is based upon current wages at termination. Accumulated sick leave is not paid at termination of employment.

7. Long-Term Obligations — See Note V.

8. Fund Equity

Fund equity is recognized as fund balance in governmental fund types, and as net assets in proprietary fund types. Certain fund equity may be reserved for a specific future use, or to denote unavailability for current operations. Designations of fund balance represent tentative management plans that are subject to change. Unless otherwise noted, fund balances and retained earnings (deficits) are unreserved and undesignated.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between fund balance — total governmental funds and nets assets — governmental activities reported in the government-wide statement of net assets. One element of that reconciliation explains, "Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds." The details of this reconciliation are as follows:

Unavailable Deferred Revenue	\$2,154,435
Interest Receivable	<u>155,766</u>
Net Adjustment to Increase Total Governmental Funds to Arrive at Net Assets Governmental Activities	<u>\$2,310,201</u>

Another element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this reconciliation are as follows:

Bonds Payable	\$16,785,000
Minus: Issuance Discount/Premium	(20,390)
Revolving Fund Debt	2,875,153
Compensated Absences	<u>1,644,297</u>
Net Adjustment to Reduce - Total Governmental Funds to Arrive at Net Assets - Governmental Activities	<u>\$21,284,060</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances — total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures". However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. When capital assets are disposed of, the difference between original cost minus depreciation and the proceeds is booked as a gain or (loss) on the sale. The details of this difference are as follows:

Capital Outlay	\$8,795,471
Depreciation Expense	(16,945,963)
Disposition of Capital Assets (Net Book Value)	<u>189,768</u>
Net Adjustment to Increase Net Changes in Fund Balance - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$(7,960,724)</u>

Another element of that reconciliation states "The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

The details of this difference are as follows:

Issuance of General Obligation Debt	\$7,610,000
Issuance of Revolving Fund Debt	502,830
Less Discount/Premium	33,284
Principal Payments:	
General Obligation Debt	(480,000)
Revolving Fund Debt	(94,151)
Net Adjustment to Increase Net Changes in Fund Balances Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$7,505,395</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Scope of Budget

The annual budget for Skagit County is adopted in accordance with the provisions of the Revised Code of Washington (RCW), as interpreted by the Budgeting, Accounting, and Reporting System (BARS) of the State of Washington, and on a basis consistent with generally accepted accounting principles.

The annual appropriated budget is adopted at the department level within each fund. For management purposes, expenditures are further segregated by "object class" of expenditure. "Object class" refers to a segmentation of expenditures into five categories. These categories are salaries and wages, personnel benefits, supplies, other services and charges, and capital expenditures. Expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. All appropriations lapse thirty days after the close of each fiscal year. All expenditures incurred prior to year-end, but not paid until this thirty-day period are considered expenditures against the budget for the prior year and are reported as accounts payable.

Budget status reports are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, revenues and expenditures can be monitored at fund, department, division, activity, or object class level.

2. Procedures for Adopting the Original Budget

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

- a) On or before the second Monday in July, County officials are requested to prepare estimates of revenues and expenditures for the next fiscal year.
- b) On or before the second Monday in August, each County official submits detailed estimates of probable revenues and expenditures to the County Auditor for the ensuing year.
- c) On or before the first Tuesday in September, the County Auditor submits the County's compiled Preliminary Annual Budget to the Board of County Commissioners.
- d) The Commissioners conduct public meetings/hearings on the proposed budget from September through October.

- e) The Commissioners make adjustments to the proposed budget and adopt, by resolution, a final balanced budget no later than December 31.
- f) Upon adoption, the final budget is available to the public.

3. Amending the Budget

The following processes are the only methods by which a budget can be modified.

Budget revisions in the form of supplemental appropriation resolutions are approved by the Board of County Commissioners in the legally prescribed manner during public meetings throughout the year. Any proposed revisions which alter the total appropriation of any fund are published in the County's legal newspaper once per week for two consecutive weeks before the public hearing to enable taxpayer input. Supplemental appropriations are required because of several factors. These include the awarding of State and Federal grants during the year, the release of contingency funds for expenditure in specific programs and enhanced revenues, which provide funding for expanded program requirements. After conducting the aforementioned public hearing, the County Commissioners may amend the budgeted appropriations by adoption of a Supplemental Budget resolution. Management has no authority to amend the budget in any other manner.

When the County Commissioners determine that it is in the best interest of the County to increase or decrease the appropriation for a particular object class without altering the total budget of any fund, it may do so by resolution approved by a simple majority during a public meeting. These budget modifications are called budget line item changes. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year, including budget amendments and budget line item changes.

B. Deficit Fund Equity

The following funds exhibit deficit fund balances as of December 31, 2006:

The **Water Quality Fund** deficit was \$47,803 at December 31, 2006. The receipt of revolving fund loan proceeds in 2007 will resolve the deficit.

The **Communication System Fund** deficit was \$42,637 at December 31, 2006. A charge back to the Skagit Emergency Communications Center for \$81,213 in 2007 will resolve the deficit.

The **Clean Water Program Fund** (formerly the Salmon Recovery Fund) deficit was \$309,203 at December 31, 2006. Operating assessments being collected from property owners in unincorporated Skagit County will resolve the deficit over the next three years.

The **Hansen Creek Sub-Flood Control Zone Fund** deficit was \$70,043 at December 31, 2006. Operating assessments being collected from property owners in the Zone will resolve the deficit over the next two years.

The **Lake Management District No. 1 Fund** deficit was \$48,326 at December 31, 2006. Operating assessments being collected from property owners in the District will resolve this deficit over the next two years.

The **Lake Management District No. 2 Fund** deficit was \$18,842 at December 31, 2006. Operating assessments being collected from property owners in the District will resolve this deficit over the next four years.

The **Solid Waste Fund** deficit is \$1,583,913 at December 31, 2006, and is a result of the closure of the incinerator and its demolition. The Resource Recovery Facility changed its operations from incinerating to long-hauling solid waste in May of 1994. The Solid Waste Fund's long-hauling of solid waste realized net operating income of \$495,753 for the fiscal year ended December 31, 2006.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

The Skagit County Treasurer is empowered by the State to act as the treasurer not only for the County but also for special purpose districts located in the County. In this role, the Treasurer is empowered and it is the County's policy to deposit and invest all temporary cash surpluses. At the end of the year, the carrying amount of the government and agency deposits was \$77,598,743 and the bank balance was \$3,364,800 all of which was covered by federal depository insurance or collateralized with securities which are either held by the County or by the County's agent in the County's name. This amount is classified on the balance sheet as cash, cash equivalents, and deposits in various funds. The FDIC (federal depository insurance corporation) insures all deposits of the County up to \$100,000 and the Washington Public Deposit Protection Commission for amounts over \$100,000.

Investments

As required by Washington State law, all investments of Skagit County and applicable Agency's funds are obligations of the United States Government, the State Treasurer's Investment Pool, commercial paper or deposits with Washington State banks and savings and loans institutions.

U. S. Government securities and commercial paper are stated at fair value. All other investments are stated at amortized cost which approximates fair value. The fair value of the County's position in the State Treasurer's Investment Pool is the same as the value of the pool shares. Authority to manage the Skagit County Investment Program derives from RCW 36.29.020. Regulatory oversight is provided by the County Finance Committee comprised of the Treasurer as Chair, The Auditor as Secretary, and the County Commissioners Chair. The State Treasurer's Investment Pool was created by the Washington State Legislature in 1986 and is overseen by the State Treasurer. The State Finance Committee administers the pool and is advised by the local Government Investment Pool Advisory committee comprised of twelve members selected from the active pool participants. The pool is operated in a manner consistent with the SEC Rule 2a7.

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

As of December 31, 2006, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>
Certificates of Deposit	\$74,946,251	\$63,820,104	\$11,126,147	\$0	\$0
Money Market	2,652,492	2,652,492	0	0	0
Bankers Acceptances	436,879	436,879	0	0	0
Registered Warrants	531,941	531,941	0	0	0
Commercial Paper	20,334,745	20,334,745	0	0	0
Treasury Notes	997,765	398,140	0	599,625	0
Municipal Notes	723,664	0	98,926	624,738	0
U. S. Agencies	67,190,378	34,425,800	17,337,621	14,013,839	1,413,118
State Treasurer Pool	122,253,163	122,253,163	0	0	0
Totals	<u>\$290,067,278</u>	<u>\$244,853,264</u>	<u>\$28,562,694</u>	<u>\$15,238,202</u>	<u>\$1,413,118</u>

Interest Rate Risk

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

Credit Risk

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

As of December 31, 2006, the County's investments in U.S. Agencies (\$56,944,701) was rated AAA by Standard & Poor's and Aaa by Moody's Investors Services. The County's investment in the Federal National Mortgage Association (\$10,094,277) was rated AAA by Standard & Poor's, Fitch Ratings and Moody's Investor Services. The County's Investment in Commercial Paper was rated A1 and A1+ by Standard & Poor's, F1 by Fitch Ratings and P1 by Moody's Investors Services. The investments in Municipal Notes are rated as follows: New York Taxable Series D (\$98,648) rated A1 by Moody's Investors Services and A+ by Standard & Poor's. Orange Township NJ Series D (\$135,573) rated AAA by Fitch Ratings and Aaa by Moody's Investors Services. Oregon State Taxable (\$490,005) rated AA3 by Moody's Investors Services and AA – by Standard & Poor's. The County's investment in Registered Warrants are not rated. The County's investment in the Washington State Investment Pool was not rated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County's policy is to limit to 15 percent of the total portfolio the amount that may be invested in any on financial institution. In addition, no more than 3 percent of the total portfolio may be invested in any one issuer of commercial paper and no more than 10 percent may be invested in any one Treasury obligation. At year end, the County had concentrations greater than 5 percent of investments in the following issuers: Federal Home Loan Bank – 16.5%, Federal National Mortgage Association – 11.6%, Federal Home Loan Mortgage Corporation – 7.6%.

B. Property Taxes

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

PROPERTY TAX CALENDAR

January 1	Taxes are levied and become an enforceable lien against properties.
February 15	Collection of current year's taxes authorized
April 30	First of two installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. Property tax revenue is recognized when the revenue becomes available. During the year, property tax revenues are recognized when cash is collected. Collections are distributed at the end of each month. Property taxes are levied and attach as a lien on property as of January 1. Anticipated refunds of taxes are recorded as reductions of revenue when they are measurable and their validity seems certain. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The County may levy up to \$1.80 per \$1,000 of assessed valuation for general governmental services, subject to the following limitations:

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

The following identifies the tax rates levied collection in 2006:

	LEVY IN DOLLARS ASSESSED PER THOUSAND	TOTAL VALUE	LEVY
2006			
County	\$1.7335	\$11,594,699,782	\$20,096,257
Roads	1.7281	5,659,314,391	9,779,862
Conservation Futures	.0533	11,594,699,782	617,997
2005			
County	\$1.7832	\$10,221,638,386	\$18,223,757
Roads	1.9454	5,291,939,337	10,294,938
Conservation Futures	.0576	10,221,638,386	588,766

The County tax rate reported is comprised of a levy for general governmental services and special revenue assessments.

The County is also authorized to levy taxes in unincorporated areas for road construction and maintenance, subject to the same limitations as the levy for general government services.

The Conservation Futures tax rate is a non-voter approved excess levy for the purpose of acquiring future development rights for preservation purposes.

C. Receivables

Receivables as of year-end for the County's individual major funds, non-major, internal service and agency funds in the aggregate, including the applicable allowance for uncollectible accounts are as follows:

	Taxes	Accounts	Due from Other Governments	Interest & Penalties	Total
General Fund	\$528,071	\$1,214,899	\$874,420	\$178,229	\$2,795,619
County Roads	263,453	961,842	832,769	0	2,058,064
Facility Improvement	0	0	0	0	0
NonMajor Governmental	101,167	478	1,804,289	0	1,905,934
Solid Waste	0	582,094	101,032	0	683,126
Drainage Utility	22,467	1,556	0	0	24,023
Internal Service	0	3,821	25,857	0	29,678
Agency	2,340,445	0	0	0	2,340,445
Total Receivables	<u>\$3,255,603</u>	<u>\$2,764,690</u>	<u>\$3,638,367</u>	<u>\$178,229</u>	<u>\$9,836,889</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Property Taxes Receivable (General Fund)	\$528,071	
Property Taxes Receivable (Road Fund)	263,453	
Property Taxes Receivable (Other Governmental Funds)	101,167	
Revenue earned but not yet available	1,211,099	
Grants received prior to meeting all eligibility requirements	0	\$18,256
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$2,103,790</u>	<u>\$18,256</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2006 is as follows:

Due To/From other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	County Roads	\$705,250
	Non-Major Gov't Fund	124,412
	Solid Waste Fund	103,247
	Drainage Utility	15,314
	Internal Services Funds	110,442
		<u>\$1,058,665</u>
County Roads	General Fund	\$588
	Non-Major Gov't Fund	36,187
	Solid Waste Fund	512,202
	Drainage Utility Fund	184,965
	Internal Services Funds	182,109
		<u>\$916,051</u>
Non-Major Gov't Fund	General Fund	\$29,118
	County Roads	145,831
	Non-Major Gov't Fund	83,927
	Solid Waste Fund	24,833
	Drainage Utility Fund	85,943
		<u>\$369,652</u>
Solid Waste Fund	General Fund	\$319
	Non-Major Gov't Fund	812
		<u>\$1,131</u>
Drainage Utility	County Roads	\$11644
	Non-Major Gov't Fund	25
		<u>\$11,669</u>
Internal Services Funds	General Fund	\$1,607,626
	County Roads	630,740
	Non-Major Gov't Fund	11,873
	Solid Waste Fund	34,025
	Drainage Utility	4,156
	Internal Services Funds	1,101,858
		<u>\$3,390,277</u>
Total		<u><u>\$5,747,446</u></u>

These interfund transactions usually involve the exchange of goods and services in a normal business relationship.

Interfund loans receivable/payable:

Borrowing Fund	Lending Fund	Balance 1/1/06	New Loans	Repay	Balance 12/31/06
Lake Management No. 1	General Fund	\$87,000	\$9,000	\$39,000	\$57,000
Lake Management No. 2	General Fund	34,000	0	8,000	26,000
Lake Management No. 3	General Fund	17,000	4,000	10,000	11,000
Hansen Creek Sub Flood	General Fund	1,000	70,000	0	71,000
River Improvement	County Roads	400,000	0	400,000	0
Facility Improvement	Capital Improve	317,013	544,000	861,013	0
Clean Water Program	General Fund	0	262,500	0	262,500
	TOTAL	\$856,013	\$889,500	\$1,318,013	\$427,500

Interfund loans receivable and payable are created as a result of cash or property transfers resulting in a subsequent promise of repayment. The loans were made to provide cash flow for operations.

Interfund transfers:

Transfer Out	Transfer In		
	General Fund	Facility Improv	Non-Major Gov
General Fund	\$0		\$4,074,183
County Roads	0		605,252
Non-Major Gov	10,000	978,337	1,450,701
Drainage Utility	0		180,761
Total	\$10,000	\$978,337	\$6,310,897

Interfund operating transfers represent subsidies and contributions provided to operating funds and capital project funds. The purpose of the general fund transfers is to subsidize capital project activities and debt service. Transfers out of non-major governmental funds generally represent debt service and capital project funding.

E. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated				
Land	\$17,134,149	\$174,152	\$0	\$17,308,301
Development rights	6,298,890	788,719	0	7,087,609
Total capital assets not being depreciated	\$23,433,039	\$962,871	\$0	\$24,395,910
Capital assets, being depreciated				
Buildings	\$40,495,347	\$732,220	\$0	\$41,227,567
Improvements	5,931,396	336,953	0	6,268,349
Machinery and equipment	18,091,464	1,346,669	295,686	19,142,447
Infrastructure	457,505,656	6,671,659	0	464,177,314
Total capital assets being depreciated	\$522,023,863	\$9,087,501	\$295,686	\$530,815,677
Less accumulated depreciation for:				
Buildings	\$14,578,197	\$924,501	\$0	\$15,502,698
Improvements	2,817,576	268,122	0	3,085,698
Machinery and equipment	10,927,716	1,406,223	712,587	11,621,352
Infrastructure	133,287,540	15,386,302	0	148,673,842
Total accumulated depreciation	\$161,611,029	\$17,985,148	\$712,587	\$178,883,590
Total capital assets, being depreciated net	\$360,412,834	\$(8,897,647)	\$(416,901)	\$351,932,087
Governmental activities capital assets net	\$383,845,873	\$(7,934,776)	\$(416,901)	\$376,327,997

Depreciation expenses were charged to functions as follows:

General Governmental Services	\$1,123,130
Public Safety	156,562
Physical Environment	3,744
Transportation	15,546,484
Economic Environment	17,374
Mental and Physical Health	26,243
Culture and Recreation	<u>72,426</u>

In addition depreciation on capital assets held by the County's Internal Services Funds is charged to various functions based upon their usage of the assets 1,039,186

Total governmental activities depreciation expense \$17,985,148

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities				
Capital assets, not being depreciated				
Land	\$469,852	\$169,458	\$0	\$639,310
Construction in progress	<u>579,178</u>	<u>383,122</u>	<u>116,035</u>	<u>846,265</u>
Total capital assets, not being depreciated	<u>\$1,049,030</u>	<u>\$552,580</u>	<u>\$116,035</u>	<u>\$1,485,575</u>
Capital assets, being depreciated				
Buildings	\$1,825,299	\$0	\$0	\$1,825,299
Improvements	3,620,785	140,712	0	3,761,497
Machinery and equipment	<u>623,746</u>	<u>0</u>	<u>0</u>	<u>623,746</u>
Total capital assets being depreciated	<u>\$6,069,830</u>	<u>\$140,712</u>	<u>\$0</u>	<u>\$6,210,542</u>
Less accumulated depreciation for:				
Buildings	\$1,720,834	\$20,289	0	\$1,741,123
Improvements	486,798	121,355	0	608,153
Machinery and equipment	<u>519,481</u>	<u>10,069</u>	<u>0</u>	<u>529,550</u>
Total accumulated depreciation	<u>\$2,727,113</u>	<u>\$151,713</u>	<u>\$0</u>	<u>\$2,878,826</u>
Total capital assets, being depreciated net	<u>\$3,342,717</u>	<u>(\$11,001)</u>	<u>\$0</u>	<u>\$3,331,716</u>
Business type activities, capital assets net	<u>\$4,391,747</u>	<u>\$541,579</u>	<u>\$116,035</u>	<u>\$4,817,291</u>

Depreciation expenses were charged to functions as follows:

Solid Waste	\$33,755
Drainage Utility	<u>117,958</u>
Total Business type activities depreciation expense	<u>\$151,713</u>

V. LONG-TERM DEBT

Skagit County's long-term debt consists of general obligation bonds, liability for compensated absences and loans.

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. These bonds are reported in the proprietary fund if re-payment is expected to occur from proprietary revenues. All other long-term indebtedness of the County is reported in the governmental column of the government-wide statement of net assets. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 20-23 year serial bonds with equal or increasing amounts of principal maturing each year.

In the instance of proprietary fund debt, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are amortized over the term of the related debt. Governmental funds recognize bond premiums, discounts and issuance costs during the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether withheld or not from proceeds are reported as debt service expenditures.

State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the county:

1.5% - no vote required

2.5% - vote required

5.0% - vote required, with the provision that the voted debt is utilized for utilities, parks or open space development.

The accompanying Limitation of Indebtedness computation discloses the County's legal debt margin as of December 31, 2006.

SCHEDULE OF LEGAL LIMIT OF DEBT MARGIN FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Purpose of Indebtedness</u>	<u>Remaining Capacity</u>
General Government (no vote required)	\$210,066,358
General Government (vote required)-2.5%	\$140,044,239

A. General Obligation Bonds

**Amount
Outstanding**

The \$5,365,000 1996 Bonds were issued to provide funds for general County purposes related to solid waste disposal, and are scheduled to mature December 1, 2015. The Bonds maturing on or after December 1, 2007 were subject to redemption at the option of the County in whole or in part at any time on or after December 1, 2006. The callable bonds were refunded in 2005. The non-callable balance remaining was \$85,000. Principal and interest payments are made annually on December 1. Interest rates range from 3.90% to 5.25%. This issue is being serviced through the Solid Waste Proprietary Fund. Principal payments of \$45,000 and interest payments of \$2,047 were made in 2006.

\$-0-

The \$875,000 1997 Bonds were issued for the purpose of acquiring an office building and renovating an adjacent building owned by the County, for use by nonprofit agencies as a family resource center. The County has entered into lease purchase agreements with non-profit social service agencies that have the mission of serving families in Skagit County. Repayment will be made from these lease purchase agreements. Principal payments are made annually on June 1 with interest being paid on June 1 and December 1. The interest rate ranges from 4.10% in 1999 to 5.20% in 2013. The bonds are scheduled to mature on June 1, 2013 and are serviced through the County's Debt Service Fund. Principal payments of \$55,000 and interest payments of \$25,795 were made in 2006.

\$490,000

In 2000, Limited Tax General Obligation Bonds in the amount of \$8,000,000 were issued for the purpose of funding grants to communities within the County to construct economic development public facility projects that further the goals of promoting ongoing operations of business, expansion of existing businesses, attracting and assisting new businesses. Repayment will be made from the imposition of a Distressed County Sales and Use Tax deducted from the tax otherwise required to be collected by the State. The Bonds are scheduled to mature from December 1, 2001 through December 1, 2022. The Bonds sold at interest rates yielding 4.80% in 2001 to 5.625% in 2022. The bonds of this issue, maturing on and prior to December 1, 2009, are not subject to redemption prior to their stated maturities. The Bonds maturing on or after December 1, 2010 are subject to redemption at the County's option. The Bonds are serviced through the County's Debt Service Fund. Principal payments are made annually on December 1 and interest payments are made on June 1 and December 1. Principal payments of \$260,000 and interest payments of \$366,289 were made in 2006

\$6,605,000

In 2003, Limited Tax General Obligation and Refunding Bonds in the amount of \$5,340,000 were issued:

- i) The County's purpose was to use \$2,520,000 of the proceeds to pay the costs of acquiring and renovating a building to house the County's Public Works, Planning and Administration Departments. This portion of the 2003 issue will be serviced through the County's Debt Service Fund and payment will be made by the General Fund and the Public Works Fund. Principal payments are made annually on December 1 and interest is paid on June 1 and December 1. The interest rate ranges from 2.00% in 2003 to 4.10% in 2017. Principal payments of \$150,000 and interest payments of \$71,663 were made in 2006.

\$1,950,000

- ii) The County's purpose was to use \$2,820,000 of the proceeds to refund the callable maturities of its outstanding 1993 Limited Tax General Obligation Refunding Bonds. The 1993 Bonds were issued to refund the callable portion of the County's 1987 Limited Tax General Obligation Bonds. The 1987 Bonds were issued to pay a part of the costs of construction of a solid waste incinerator. The refunding bond will be serviced through the Solid Waste Proprietary Fund. Principal payments are made annually on December 1 and interest is paid on June 1 and December 1. The interest rate ranges from 2.00% in 2003 to 2.30% in 2007. Principal payments of \$745,000 and interest payments of \$28,125 were made in 2006. \$575,000

In 2005, Limited Tax General Obligation and Refunding Bonds in the amount of \$5,475,000 were issued:

- i) The County's purpose was to use \$160,000 of the proceeds to acquire land as a part of the expansion of a family resource center. The center had previously been acquired with the issuance of the 1997 General Obligation Bond. This portion of the 2005 issue will be serviced through the County's Debt Service Fund and payment will be made by the General Fund. Principal payments are made annually on December 1 and interest is paid on June 1 and December 1. The interest rate ranges from 3.00% in 2005 to 3.75% in 2013. Principal of \$15,000 and interest payments of \$4,950 were made in 2006. \$130,000
- ii) The County's purpose was to use \$5,315,000 of the proceeds to refund the callable maturities of the 1996 LTGO bonds scheduled to mature on December 1, 2007 through 2015. The bonds were issued to provide funds for general County purposes related to solid waste disposal. The refunding bond will be serviced through the Solid Waste Proprietary Fund. Principal payments are made on December 1 and interest payments are made on June 1 and December 1. The interest rate ranges from 3.00% in 2005 to 3.75% in 2013. Principal payments of \$180,000 and interest payment of \$176,525 were made in 2006. \$4,905,000

In 2006, Limited Tax General Obligation Bonds in the amount of \$7,610,000 were issued for the purpose of acquiring land, constructing and equipping a building to initially house the County health department, other capital improvements to County facilities, if any, approved by the Board, and to pay the costs of issuance of the Bonds. The issue will be serviced through the County's Debt Service Fund and payment will be made by the General Fund. Principal payments are made annually on December 1 and interest is paid on June 1 and December 1. The interest rate ranges from 3.75% in 2006 to 4.0% in 2026. There were no payments made in 2006. \$7,610,000

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$730,000	\$775,955	\$810,000	\$184,350
2008	790,000	712,592	710,000	164,075
2009	830,000	680,465	735,000	142,775
2010	865,000	645,988	765,000	117,050
2011	905,000	609,045	790,000	90,275
2012-2016	4,790,000	2,437,389	1,670,000	94,500
2017-2021	4,800,000	1,346,206	0	0
2022-2026	3,075,000	336,992	0	0
Totals	\$16,785,000	\$7,544,632	\$5,480,000	\$793,025

B. Revolving Fund Loans

The loans were acquired for the purposes of creating local loan fund programs to provide loans to landowners to make improvements to their personal property in order to correct on-site sewage and poor farm practice problems impacting water quality in Skagit County. Repayment of these loans will be made from the proceeds of the local loan fund programs.

	Amount Outstanding
The County entered into an additional loan agreement in 1997 with the State of Washington Water Pollution Control Revolving Fund, Department of Ecology. The project title is Skagit County Clean Water District -Edison Subarea. The Department of Ecology has reconciled all costs of various State and Federal grant and loan funds and reduced the loan amount to \$346,479 and closed the loan in 2000. Principal payments of \$17,768 were made in 2006. The loan is interest free.	\$222,102
The County entered into a loan agreement in 2000 with the State of Washington Water Pollution Control Revolving Fund, Department of Ecology. The project title is Water Quality Improvement Fund Project. The total revised loan amount is \$1,571,356, the interest rate is 1.5%, and the term is 20 years. The loan closed in early 2005. Principal payments of \$71,961 and interest payments of \$21,858 were made in 2006.	\$1,403,196
The County entered into a second loan agreement in 2000 with the State of Washington Water Pollution Control Revolving Fund, Department of Ecology. The project title is Edison Subsurface Effluent Disposal Field. The total revised loan amount is \$57,479. The loan is interest free and the term is 20 years. Principal payments of \$4,421 were made in 2006.	\$50,110
The County entered into a loan agreement in 2005 with the State of Washington, Department of Ecology. The project title is Skagit County Local Loan Fund. The total amount available is \$1,500,000. The County has been obligated in 2006 in the amount of \$502,830. The projected closing date is December 2007 with payments to begin in 2008. The interest rate is 1.50% and the term is 20 years.	\$1,199,745

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$93,760	\$20,775
2008	112,691	37,720
2009	150,148	36,140
2010	152,099	34,189
2011	154,081	32,208
2012-2016	801,174	130,268
2017-2021	810,948	76,073
2022-2026	529,300	22,999
2027	70,952	802
Totals	\$2,875,153	\$391,174

C. Changes in Long-Term Liabilities

During the year ended December 31, 2006, the following changes occurred in long-term liabilities:

	Beginning Balance	New Issue	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$9,655,000	\$7,610,000	\$480,000	\$16,785,000	\$730,000
Less Deferred Amount					
For Issuance Discounts/Premiums	(42,473)	19,392	(2,691)	(20,390)	(1,883)
Total Bonds Payable	\$9,612,527	\$7,629,392	\$477,309	\$16,764,610	\$728,117
Revolving Fund Loans	2,466,474	502,830	94,151	2,875,153	93,760
Claims and Judgments Payable	135,986	329,500	183,570	281,916	0
Compensated Absences	1,634,047	2,025,369	1,875,117	1,784,299	1,784,299
Long term Liabilities	<u>\$13,849,034</u>	<u>\$10,487,091</u>	<u>\$2,630,147</u>	<u>\$21,705,978</u>	<u>\$2,606,176</u>
 Business -Type Activities					
Bonds Payable					
General Obligation Bonds	\$6,450,000	\$0	\$970,000	\$5,480,000	\$810,000
Less Deferred Amounts					
For Issuance Discounts/ Premiums	36,880	0	8,198	28,682	8,198
On refunding	(198,928)	0	(30,730)	(168,198)	(30,730)
Total Bonds Payable	\$6,287,952	\$0	\$947,468	\$5,340,484	\$787,468
Compensated Absences	61,128	61,556	68,614	54,070	54,070
Long term Liabilities	<u>\$6,349,080</u>	<u>\$61,556</u>	<u>\$1,016,082</u>	<u>\$5,394,554</u>	<u>\$841,538</u>

For governmental activities, the General Fund or the respective Special Revenue Fund generally liquidates compensated absences. Claims and judgments are liquidated by the Insurance Service Fund.

VI. PENSION PLANS

Substantially all Skagit County's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communication Unit, P.O. Box 48380, Olympia WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plan 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an

option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after any employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 received reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 received reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	51,004
Total	246,754

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets

Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	3.69%**	3.69%	3.69%****
Employee	6.00%***	3.50%	*****

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

**The employer rate for State elected officials is 5.44%.

***The employee rate for State

****Plan 3 defined benefit portion only.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2006	\$86,701	\$700,371	\$148,519
2005	\$54,801	\$416,095	\$86,342
2004	\$38,765	\$291,408	\$50,611

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003 being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

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

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53, and to reflect the choice of a Survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 376 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	8,723
Terminated Plan members Entitled To But Not Yet Receiving Benefits	577
Active Plan Members Vested	12,348
Active Plan Members Nonvested	3,543
Total	25,191

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with Chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature has the ability, by means of a special funding arrangement, to appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	4.90%**
Employee	0.00%	7.85%
State	n/a	3.13%

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

**The employer rate for ports and universities is 8.03%

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

	LEOFF Plan 1	LEOFF Plan 2
2006	\$107	\$171,983
2005	\$99	\$133,389
2004	\$117	\$118,040

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

Plan Description

PSERS was created by the 2004 legislature and became effective July 1, 2006. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. Skagit County is a covered employer that participated in PSERS.

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

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

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service and attains the age of 65. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

The first actuarial valuation of the PSERS system will be effective as of September, 2006 and reported in the year 2007.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006 were as follows:

	PSERS Plan 2
Employer*	6.76%
Employee	6.57%

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

Both Skagit County and the employees made the required contributions. Skagit County's contributions for the year ended December 31, 2006 were as follows:

	PSERS Plan 2
2006	\$15,991

VII. RISK MANAGEMENT

A. Liability Insurance

Skagit County is a member of the Washington Counties Risk Pool ("Pool"). Chapter 48.62 RCW authorizes the governing body of one or more governmental entities to form together into or join a pool 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 Pool was formed on August 18, 1988 when several 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 related administrative services. Thirty counties have belonged to the Pool for some years since its inception, and twenty eight counties are members presently.

The Pool allows members to jointly purchase property and excess liability insurance, to establish a plan of self-insurance, and to provide and/or obtain related services such as risk management, etc. All Pool joint self-insurance liability coverages, including public officials' errors and omissions, and the property insurance program are on an "occurrence" basis. The Pool provides the following forms of group purchased insurance coverage for its members: "following form" excess liability, and property that includes vehicles, mobile equipment, EDP equipment, and equipment breakdown, etc.

Members make an annual contribution to fund the Pool. The Pool acquires liability reinsurance and "following form" excess insurance from unrelated underwriters that is subject to a per-occurrence self-insured retention of \$100,000 or the member-selected deductible, whichever is greater. Based upon their individual deductible selections, members are responsible for the first \$10,000 to \$500,000 of each claim, while the Pool is responsible for the remaining self-insured retention up to \$100,000. Insurance carriers cover all losses above the \$100,000 to \$500,000 self-insured retention to the maximum limits of each policy.

Since the Pool is a cooperative program, there is joint liability among the participating members. This contingent liability is established if a program's assets are insufficient to cover the program's liabilities. Deficits of the Pool are financed through retroactive assessments of the responsible members. The Pool's to-date reassessments receivable balance as of December 31, 2006 is \$947,956. Skagit County's reassessments responsibilities have been satisfied.

The Pool also acquires member-option property insurance from unrelated underwriters that is subject to a member-selected per-occurrence deductible of between \$5,000 and \$50,000. Members are responsible for the entire deductible amount of each claim. Insurance carriers cover all losses over the member deductibles to the maximum limits of each policy.

Each new member pays the Pool an admittance fee. This amount covers the member's share of organizational expenses and the cost of analyzing their loss data and risk profile. Members contract to remain in the Pool for a minimum of five years, and may terminate their memberships at the conclusion of any Pool fiscal year if the county has timely provided the required twelve months' notice. The Interlocal Governmental Agreement is renewed automatically each year after the initial 5-year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the interlocal governmental agreement.

The Pool is fully funded by its member participants. Claims are filed by members and handled by the Pool's claims staff. Reserves are established for both reported and unreported insured events and include estimates of the undiscounted future cash payments of losses and related claim adjustment expenses.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive committee is elected from the member-designated directors and alternate directors at the annual meeting. Also at the annual meeting, the Pool's officers (president and secretary-treasurer) are elected from the executive committee members. The officers and the executive committee are responsible for conducting the business affairs of the Pool.

Claim settlements and loss expenses are accrued in the County's Liability Insurance Fund. This fund is responsible for collecting interfund premiums from insured funds and departments, and for paying risk pool premiums and claim settlements.

Revenues of the Insurance Services fund are derived from intergovernmental transfers for insurance premiums, actual claims incurred, defense costs and risk management activities. Funds that pay for either insurance or claims include the Current Expense Fund, County Road Funds, County Fair Fund, Solid Waste Operating Fund, and the Public Health Fund. In addition, money is sometimes recouped from insurance companies when a claim coverage dispute is resolved in favor of Skagit County.

Outstanding claims, not covered by the Washington Counties Risk Pool and where it is likely that a loss will occur, have been accrued as expenses with a corresponding liability in claims and judgments payable. Claim settlements have not exceeded insurance coverage for each of the past three fiscal years.

The following schedule is a reconciliation between the current year's and the prior two year's claims liability:

GENERAL/AUTO LIABILITY AND PROPERTY CLAIMS LIABILITY

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims & Changes In Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2004	\$677,453	\$101,187	\$436,244	\$342,396
2005	\$342,396	\$530,680	\$737,090	\$135,986
2006	\$135,986	\$329,500	\$183,570	\$281,916

B. Other Insurance

Employee on-the job injuries are covered by industrial insurance through Labor & Industries (L&I). All employees and some volunteers, except LEOFF-1 members and ferry crewmembers, are covered to statutory limits. Industrial insurance (L&I) rates are occupation and experience based, with base premiums adjusted for individual entity claims experience (modification multiplier).

The experience modification multiplier in 2004 was 1.3937, in 2005 the modifier was 1.4249, and in 2006 the modifier is 1.3977. As of July 1997 the County joined the Washington Counties Retrospective Rating group, which could lead to future dividends, based on group and individual experience. The experience multiplier for the year 2007 will be 1.1282.

Unemployment claims are processed by the Washington State Department of Employment Security. Skagit County is self-insured for unemployment claims, meaning the County reimburses Washington State for actual claims paid. Beginning in 2004, the County created an Unemployment Compensation Fund. The Fund receives payments from operating funds and departments based on estimates of future claims in the form of a percentage of current wages. Payments to the Department of Employment Security will be made from the Unemployment Fund. Current assets set aside for these claims at December 31, 2006 are \$243,041. There are no significant claims outstanding at December 31, 2006.

The County is self-insured for dental insurance claims which are administered through a third party administrator.

Instead of paying monthly premiums to an indemnity plan provider, a sum equal to a monthly premium is transferred to the Insurance Services Fund on a monthly basis. Payments are then made to the third party administrator as service provider invoices are submitted. The third party administrator has been Washington Dental Service since May 1, 1996. Administrative fees and charges totaled \$70,761.

The following schedule is a reconciliation between the current year's and prior two years' claims liability.

	<u>Beginning Balance</u>	<u>Current Year Charges & Changes In Estimates</u>	<u>Claim Payments</u>	<u>Balance At Year End</u>
2004	\$119,192	\$752,766	\$758,224	\$113,734
2005	\$113,734	\$691,497	\$700,201	\$105,030
2006	\$105,030	\$687,228	\$688,920	\$103,338

In January 2003, the County began self-insuring for medical insurance claims for eligible County employees and eliminated it's medical indemnity plan. The claims processing is administered by Premier Blue Cross. The County's health benefits broker, Acordia, has determined the amounts equal to a monthly premium. The amounts are transferred to the Insurance Services fund and payments are made to the claims processor as service provider invoices are submitted. An excess coverage insurance policy covers claims in excess of \$200,000 per claimant.

The policy cost was \$315,673 in 2006 and administrative fees and charges totaled \$578,822.

The following schedule is a reconciliation between the current year's and the prior years' claims liability.

	<u>Beginning Balance</u>	<u>Current Year Charges & Changes In Estimates</u>	<u>Claim Payments</u>	<u>Balance At Year End</u>
2003	\$0	\$3,577,616	\$3,345,892	\$231,724
2004	\$231,724	\$5,082,162	\$4,394,415	\$919,471
2005	\$919,471	\$4,823,714	\$4,752,981	\$990,204
2006	\$990,204	\$5,756,018	\$5,583,080	\$1,163,142

VIII. CONTINGENCIES AND LITIGATION

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

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

On March 24, 2003, the Board of County Commissioners of Skagit County entered into a contingent loan agreement with the Skagit Regional Public Facilities District, formed pursuant to RCW 36.100. The District has authorized the issuance and sale of limited sales tax obligation bonds in the aggregate principal amount of \$9,685,000. The County and the District entered into an interlocal agreement whereby the County agreed to lend to the District amounts sufficient, together with the sales tax and net operating revenues of the District, to pay all debt service on the bonds and any additional bonds. The aggregate principal amount of outstanding loans by the County is not to exceed \$10,000,000. The first bond payment date was on December 1, 2003. As of December 31, 2006, there have been no loans made by the County to the Public Facilities District.

IX. PRIOR PERIOD ADJUSTMENT

The Communication System Fund, a non-major special revenue fund, reports a prior period adjustment of \$81,213. Utility payments due to the City of Sedro Woolley were sent in error to Skagit County by the remitting agency. This amount covered payments for the years 2002-2005.

X. SUBSEQUENT EVENT

On February 2, 2007, the County issued \$6,115,000 in limited tax general obligation refunding bonds to advance refund \$5,735,000 of the County's limited tax general obligation bonds issued in 2000. The original bonds were issued to finance public facilities projects, with principal and interest being paid by a sales tax rebate from the State of Washington earmarked for such projects. The original interest rate was 5.46%. The average rate on the new refunding bonds is 3.91% resulting in a substantial savings to the County.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<u>NORTHWEST REGIONAL COUNCIL</u>					
SK CO SR NUTRITION PROGRAM - SFMNP	10.570	2006-NUTRI/EMP - 09 (0	4,326	0	4,326
SK CO SR NUTRITION PROGRAM - USDA	10.570	2006-NUTRI/EMP-09 (02	44,944	0	44,944
		SUB-TOTAL:	\$49,270	\$0	\$49,270
<u>US DEPARTMENT OF AGRICULTURE</u>					
FEDERAL FOREST YIELD	10.665	USC TITLE 16, SEC 500	0	576,474	576,474
		SUB-TOTAL:	\$0	\$576,474	\$576,474
<u>US DEPARTMENT OF AGRICULTURE-NRCS</u>					
FARMLAND PROTECTION PROGRAM	10.913	C20040427	0	173,500	173,500
		SUB-TOTAL:	\$0	\$173,500	\$173,500
<u>WASHINGTON STATE DEPARTMENT OF HEALTH-CONSOLIDATED CONTRACT</u>					
WIC FARMER'S MARKET	10.552	C13047 (14)	151	0	151
WIC BREAST FEEDING	10.557	C13047 (14)	971	0	971
WIC NUTRITION AND LOCAL SUPPORT	10.557	C13047 (14)	61,315	0	61,315
		SUB-TOTAL:	\$62,437	\$0	\$62,437
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES/SPI-1999</u>					
SCHOOL LUNCH PROGRAM	10.555	29-320-9788	20,906	0	20,906
		SUB-TOTAL:	\$20,906	\$0	\$20,906
U.S. DEPARTMENT OF AGRICULTURE TOTAL:			\$132,613	\$749,974	\$882,588

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF COMMERCE</u>					
<u>DEPARTMENT OF ECOLOGY (NOAA)</u>					
NORTHWEST STRAITS PROJECT:SK CO BAYS IN	11.419	G0600049	67,525	0	67,525
SUB-TOTAL:			\$67,525	\$0	\$67,525
U.S. DEPARTMENT OF COMMERCE TOTAL:			\$67,525	\$0	\$67,525
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					
<u>WA ST DEPT OF COMMUNITY TRADE & ECONOMIC DEV & US DEPT OF HOUSING & URBAN DEV</u>					
COMM DEV BLK GRNT/FARMWRKR HOUSING	14.228	05-64005-048	34,000	0	34,000
SUB-TOTAL:			\$34,000	\$0	\$34,000
<u>WASHINGTON STATE DEPARTMENT OF COMMUNITY, TRADE, ECONOMIC DEVELOPMENT</u>					
SCCAA SUBRECIPIENT	14.228	03-64003-009 C2004000	9,869	0	9,869
SUB-TOTAL:			\$9,869	\$0	\$9,869
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT TOTAL:			\$43,869	\$0	\$43,869
<u>U.S. DEPARTMENT OF JUSTICE</u>					
<u>DEPARTMENT OF JUSTICE</u>					
NAT CRIMINAL HISTORY IMPRV PROG	16.554	2004-RU-BX-K032	17,789	0	17,789
CRIME VICTIM'S PROJECT	16.582		3,038	0	3,038
STOP GRANT PROGRAM	16.588	F05-31103-022	10,545	0	10,545
STOP GRANT PROGRAM	16.588	F06-31103-020	3,029	0	3,029
DOMESTIC VIOLENCE (GTEA)	16.590	2004-WE-AX-0079	0	338,250	338,250
BULLETPROOF VEST PROGRAM	16.607	(www.vests.ojp.gov)FYI 2	655	0	655
SUB-TOTAL:			\$35,056	\$338,250	\$373,306

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF JUSTICE</u>					
<u>DEPARTMENT OF JUSTICE</u>					
<u>OFFICE OF JUSTICE / DSHS</u>					
REGIONAL JUVENILE JUSTICE PLANNING	16.540	I-100-00406	1,417	0	1,417
SUB-TOTAL:			\$1,417	\$0	\$1,417
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</u>					
JAIBG	16.523	0563-77145	7,116	0	7,116
JAIBG	16.523	0663-98417/C20060421	3,763	0	3,763
SUB-TOTAL:			\$10,879	\$0	\$10,879
<u>WASHINGTON STATE PATROL</u>					
MARIJUANA ERADICATION	16.000	C061178FED	5,942	0	5,942
SUB-TOTAL:			\$5,942	\$0	\$5,942
U.S. DEPARTMENT OF JUSTICE TOTAL:			\$53,293	\$338,250	\$391,543
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>					
<u>WA ASSOC OF SHERIFFS & POLICE CHIEFS</u>					
EQUIPMENT	20.604	N/A	5,600	0	5,600
SUB-TOTAL:			\$5,600	\$0	\$5,600
<u>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION</u>					
ANDERSON ROAD RECONSTRUCTION	20.205	LA6016	84,022	0	84,022
BEST/MCLEAN INTERSECTION IMPROVEMENTS	20.205	LA6194	19,917	0	19,917
BURLINGTON ALGER BRIDGE REPLACEMENT	20.205	LA5612	1,195,451	0	1,195,451
HELMICK ROAD IMPROVEMENTS	20.205	LA6104	630,566	0	630,566

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>					
<u>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION</u>					
NORTH FORK BRIDGE	20.205	LA4819	76,937	0	76,937
SUB-TOTAL:			\$2,006,894	\$0	\$2,006,894
<u>WASHINGTON STATE TRAFFIC SAFETY</u>					
CLICK IT OR TICKET EMPHASIS PATROL	20.602	N/A	4,832	0	4,832
SUB-TOTAL:			\$4,832	\$0	\$4,832
<u>WASHINGTON TRAFFIC SAFETY COMMISSION</u>					
DRIVE HAMMERED, GET NAILED	20.604	N/A	1,805	0	1,805
DUI TRAFFIC SAFETY EMPHASIS (DOTS)	20.604	N/A	1,332	0	1,332
UPPER SKAGIT VALLEY CORRIDOR TRAFFIC SA	20.604	N/A	21,752	0	21,752
UPPER SKAGIT VALLEY CORRIDOR TRAFFIC SA	20.604	N/A	5,113	0	5,113
SUB-TOTAL:			\$30,001	\$0	\$30,001
U.S. DEPARTMENT OF TRANSPORTATION TOTAL:			\$2,047,327	\$0	\$2,047,327
<u>ENVIRONMENTAL PROTECTION AGENCY</u>					
<u>DOH CONSOLIDATED CONTRACT</u>					
EHP DRINKING WATER SS-TA	66.468	C13047 (14)	3,500	0	3,500
SUB-TOTAL:			\$3,500	\$0	\$3,500
ENVIRONMENTAL PROTECTION AGENCY TOTAL:			\$3,500	\$0	\$3,500

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<u>MOUNT VERNON SCHOOL DISTRICT</u>					
N&D DETENTION VOC PROJECT	84.013	C20060373	17,730	0	17,730
SUB-TOTAL:			\$17,730	\$0	\$17,730
<u>NWESD #189</u>					
NWESD NURSE FAMILY PARTNERSHIP	84.181	C20060114	125,992	0	125,992
NWESD NURSE FAMILY PARTNERSHIP	84.181	C2007ANTICIPATED	41,758	0	41,758
SUB-TOTAL:			\$167,750	\$0	\$167,750
U.S. DEPARTMENT OF EDUCATION TOTAL:			\$185,480	\$0	\$185,480
<u>FEDERAL ELECTIONS ASSISTANCE COMMISSION</u>					
<u>WASHINGTON ST SECRETARY OF STATE</u>					
HELP AMERICAN VOTE ACT GRANT AGREEMENT	90.401	G-2855/C20050162	132,087	0	132,087
SUB-TOTAL:			\$132,087	\$0	\$132,087
FEDERAL ELECTIONS ASSISTANCE COMMISSION TOTAL:			\$132,087	\$0	\$132,087
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES/SUBSTANCE ABUSE AND MENTAL HEALTH SERVICE</u>					
KULSHAN CREEK ARIS	93.243	6 H79 SM55300-02-1	0	19,696	19,696
SUB-TOTAL:			\$0	\$19,696	\$19,696
<u>DEPARTMENT OF SOCIAL & HEALTH SERVICES</u>					
SK CO NUTRITION TITLE XIX	93.778	0412-47114/C20040205	36,965	0	36,965
SK CO NUTRITION TITLE XIX	93.778	0412-47114/C20060335	24,718	0	24,718

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
<u>DEPARTMENT OF SOCIAL & HEALTH SERVICES</u>					
SK CO NUTRITION TITLE XIX	93.778	0412-47149	840	0	840
SK CO NUTRITION TITLE XIX	93.778	0412-47149/C20060334	3,084	0	3,084
SUB-TOTAL:			\$65,607	\$0	\$65,607
<u>DHHS</u>					
SAMHSA-PROG OF REG & NATL SIGN (PHASE 2)	93.243	C20060105	219,162	0	219,162
SUB-TOTAL:			\$219,162	\$0	\$219,162
<u>DOH CONSOLIDATED CONTRACT</u>					
OBESITY/MOUNT VERNON HEALTHY COMMON	93.283	C13047 (14)	50,689	0	50,689
PANDEMIC INFLUENZA - FED	93.283	C13047 (14)	39,249	0	39,249
SUB-TOTAL:			\$89,938	\$0	\$89,938
<u>DSHS</u>					
ARS ALTERNATIVE RESPONSE	93.556	0663-00072	1,371	0	1,371
ARS ALTERNATIVE RESPONSE	93.556	0663-89028	2,466	0	2,466
SUB-TOTAL:			\$3,837	\$0	\$3,837
<u>ESD #105-OFFICE OF NATL DRUG CONTROL POLICY</u>					
NW HIDTA	93.959	10202	35,000	0	35,000
SUB-TOTAL:			\$35,000	\$0	\$35,000
<u>NORTH SOUND MENTAL HEALTH ADMINISTRATION</u>					
DHHS GRANT	93.777	C20060383	109,177	0	109,177
SUB-TOTAL:			\$109,177	\$0	\$109,177
<u>NORTHWEST REGIONAL COUNCIL</u>					

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
<u>NORTHWEST REGIONAL COUNCIL</u>					
SK CO SR NUTRITION PROGRAM TITLE III	93.045	2005-NUTR/EMP-09 (02)	163,193	0	163,193
		SUB-TOTAL:	\$163,193	\$0	\$163,193
<u>NWESD #189</u>					
NWESD EARLY LEARNING CONSULTS	93.577	C20060273	1,100	0	1,100
		SUB-TOTAL:	\$1,100	\$0	\$1,100
<u>SKAGIT ISLANDS HEAD START</u>					
SKAGIT ISLAND HEAD START	93.600	C20050535	300	0	300
SKAGIT ISLAND HEAD START	93.600	C20060417	200	0	200
		SUB-TOTAL:	\$500	\$0	\$500
<u>SNOHOMISH HEALTH DISTRICT</u>					
2006 REGION 3 AIDSNET	93.940	C20060297	17,893	0	17,893
		SUB-TOTAL:	\$17,893	\$0	\$17,893
<u>WASHINGTON STATE DEPARTMENT OF HEALTH</u>					
VACCINE IN LIEU OF CASH	93.268	C13047 (14)	666,059	0	666,059
		SUB-TOTAL:	\$666,059	\$0	\$666,059
<u>WASHINGTON STATE DEPARTMENT OF HEALTH-CONSOLIDATED CONTRACT</u>					
IMMUNIZATION	93.268	C13047 (14)	35,890	0	35,890
BIOTERRORISM/FOCUS B	93.283	C13047 (14)	51,290	0	51,290
BIOTERRORISM/IMPLEMENT FOCUS A CONTRAC	93.283	C13047 (14)	70,310	0	70,310
INFANT TODDLER IAR	93.575	C13047 (14)	18,592	0	18,592
WATER REC BEACH IAR (SEA WATER)	93.647	C13047 (14)	3,502	0	3,502

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
<u>WASHINGTON STATE DEPARTMENT OF HEALTH-CONSOLIDATED CONTRACT</u>					
BIOTERRORISM/HOSPITAL PREPAREDNESS	93.889	C13047 (14)	3,550	0	3,550
PH BG LHD'S PREVENTIVE HEALTH	93.991	C13047 (14)	4,462	0	4,462
PHBG LOCAL PREVENTION HEART HEALTH	93.991	C13047 (14)	7,556	0	7,556
MIH/CAH/CSHCN	93.994	C13047 (7)	92,992	0	92,992
SUB-TOTAL:			\$288,144	\$0	\$288,144
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</u>					
INTENSIVE FOLLOW UP SVCS	93.778	0163-03745-005512 (1)	5,489	0	5,489
MEDICAID ADMN MATCH	93.778	0563-75746	24,004	0	24,004
SUB-TOTAL:			\$29,493	\$0	\$29,493
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES 2000</u>					
CHILD SUPPORT ENFORCEMENT	93.563	2110-80608	98,429	0	98,429
DIVISION OF CHILD SUPPORT	93.563	75-1501-0-1-609	410,503	0	410,503
SUB-TOTAL:			\$508,932	\$0	\$508,932
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES 2001</u>					
OFFICE OF SUPPORT ENFORCEMENT	93.563	2110-80608	22,561	0	22,561
FOSTER CARE PASSPORT	93.778	0663-089161	8,084	0	8,084
FOSTER CARE PASSPORT	93.778	0663-96672	14,904	0	14,904
SUB-TOTAL:			\$45,549	\$0	\$45,549
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES-DIVISION OF ALCOHOL</u>					
SUBSTANCE ABUSE PREVENTION	93.959	8893-2	31,249	0	31,249
SUBSTANCE ABUSE-TX	93.959	8893-2	106,396	0	106,396
SUB-TOTAL:			\$137,645	\$0	\$137,645

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL:			\$2,381,229	\$19,696	\$2,400,926
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>					
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>					
RETIRED SR VOLUNTEER PROGRAM	94.002	05SRPWA001/C200500	64,822	0	64,822
SUB-TOTAL:			\$64,822	\$0	\$64,822
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE TOTAL:			\$64,822	\$0	\$64,822
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
<u>FEMA</u>					
47831 CONCRETE SAUL VALLEY RD-PW#220	97.036	JM PW 26C	3,338	0	3,338
CASCADE TRAIL @ WISEMAN CK-PW#292 v.1	97.036	JM PW 8G2B	11,838	0	11,838
CASCADE TRAIL HAMILTON TRESTEL DECK-PW	97.036	JM PW 14G	33,070	0	33,070
CONCRETE SAUK VALLEY RD BANK SETTELEME	97.036	JM PW 25C	938	0	938
HOWARD MILLER STEELHEAD PK BOAT LAUNCH	97.036	JM PW 15G	53,986	0	53,986
HOWARD MILLER STEELHEAD PK REPAIR	97.036	JM PW 8G	52,296	0	52,296
SUB-TOTAL:			\$155,465	\$0	\$155,465
<u>HOMELAND SECURITY / ODP</u>					
HS EQUIPMENT REUSE PROGRAM	97.067	E07-018	900	0	900
SUB-TOTAL:			\$900	\$0	\$900
<u>REGION 1 HLS/STATE MILITARY DEPT</u>					
HOMELAND SECURITY E05-071	97.004	E05-071/C20040449/A20	188,778	0	188,778
EMERGENCY MGMT PERFORMANCE GRANT	97.042	E06-382	45,980	0	45,980

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended December 31, 2006

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
<u>REGION 1 HLS/STATE MILITARY DEPT</u>					
CITIZEN CORPS 9140-04	97.053	9140-04	6,386	0	6,386
CITIZENS CORPS E07-115	97.067	E07-115	1,282	0	1,282
FFY 2005 SHSGP E06-022	97.067	E06-022	80,022	0	80,022
SUB-TOTAL:			\$322,448	\$0	\$322,448
<u>WASHINGTON STATE PATROL</u>					
LETPP	97.004	C060613FED/C2005051	26,071	0	26,071
SUB-TOTAL:			\$26,071	\$0	\$26,071
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL:			\$504,884	\$0	\$504,884
<u>TOTAL FEDERAL AWARDS EXPENDED:</u>			\$5,616,631	\$1,107,921	\$6,724,551

The accompanying Notes to The Schedule of Financial Assistance are an integral part of this Schedule.

SKAGIT COUNTY, WASHINGTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2006

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis. Skagit County, in compliance with generally accepted accounting practices, uses modified accrual accounting for government funds and accrual accounting for proprietary funds.

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – NONCASH AWARDS - VACCINATIONS

The amount of vaccine reported on the schedule is the value of vaccine distributed by Skagit County during 2006 and priced as prescribed by the Department of Health.

NOTE 4 – NONCASH AWARDS – EQUIPMENT

Skagit County received equipment and supplies that were purchased with federal Homeland Security funds by the state of Washington. The amount reported on the schedule is the value of the property on the date it was received by Skagit County and priced by the state of Washington.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

**State Auditor
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Chief Policy Advisor
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Director of Special Investigations
Director for Legal Affairs
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Main number
Toll-free hotline for government efficiency**

Web Site

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