

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

Skagit County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 75267

Issue Date
September 22, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 22, 2008

Board of Commissioners
Skagit County
Mount Vernon, Washington

Report on Financial Statements and Federal Single Audit

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

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Federal Summary

Skagit County January 1, 2007 through December 31, 2007

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

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified significant deficiencies that we consider to be material weaknesses.

We noted instances of noncompliance that were material to the financial statements of the County.

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported a finding that is required to be disclosed under OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.665	Schools and Roads Grants to States
20.205	Highway Planning and Construction
93.778	Title XIX Medicaid Assistance Program (Medicaid)
97.036	Public Assistance Grants
97.067	Homeland Security Grant Program

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

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

Schedule of Federal Audit Findings and Questioned Costs

Skagit County January 1, 2007 through December 31, 2007

1. Skagit County did not comply with federal suspension and debarment requirements for its Homeland Security Grant Program.

CFDA Number and Title:	97.067 Homeland Security Grant Program
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	C070656FED
Pass-through Entity Name:	Washington State Patrol
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The County received \$381,979 in federal Department of Homeland Security grant money in 2007. Of that, the Sheriff's Office received \$114,156 in pass-through money from the Washington State Patrol.

Federal requirements prohibit grant recipients from participating in contracts with vendors who have been suspended or debarred from doing business with the federal government.

Compliance with these regulations must be documented in one of the following ways:

- Consult the federal Excluded Parties List System before awarding funds.
- Insert a clause or condition into the contract that states the subrecipient or contractor is not suspended or debarred.
- Obtain a written suspension and debarment certification from the subrecipient or contractor.

For a \$97,097 equipment purchase by the Sheriff's Office, the County did not retain documentation in which it determined if the vendor was suspended or debarred. We were able to determine that the vendor was not suspended or debarred and do not question these costs.

Cause of Condition

The County was aware of the federal requirements but did not retain documentation to support compliance.

Effect of Condition

Failure to obtain certifications or other evidence that vendors or subrecipients are not suspended or debarred from participation in federal programs could result in unallowable costs that could be subject to repayment.

Recommendation

We recommend the District comply with suspension and debarment requirements and maintain documentation necessary to demonstrate compliance.

County's Response

While the accountant for the Sheriff's Department did, in fact, check the Suspended and Debarred list of vendors, documentation was not printed for the file allowing the State Auditor's office the ability to verify it was checked. While the Sheriff's office considers this a minor violation, they have taken it as a major lesson and will obtain appropriate printed documentation in the future.

Auditor's Remarks

We thank County officials and personnel for their assistance and cooperation during the audit. We will review the status of the finding during the next audit.

Applicable laws and Regulations

Title 2, Code of Federal Regulations, Section 180.300 (Department of Homeland Security), states:

What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states:

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Schedule of Audit Findings and Responses

Skagit County January 1, 2007 through December 31, 2007

2. The County's internal controls over financial statement preparation are inadequate.

Background

County management, taxpayers, bondholders, creditors, banks, the state Legislature and state and federal agencies rely on the information included in financial statements and reports to make decisions. It is the responsibility of County management to design and follow effective internal controls to provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in controls that adversely affect the District's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate a significant deficiency, as defined below in the Applicable Laws and Regulations, as a finding.

Description of Condition

We identified the following significant deficiencies in internal controls that, when taken together, represent a material weakness in the County's controls over financial statement preparation:

Financial statement preparation:

- The County's financial statements and required supplemental information are prepared and reviewed by multiple people; however, no one performs a final review of the annual report as a whole after the statements, notes and required schedules are compiled.

Accrual of landfill post-closure costs:

- The County's internal controls related to selecting and applying appropriate accounting principles for its operations were inadequate. The County is required by the Governmental Accounting Standards Board (GASB), Statement No. 18, to report the estimated closure and postclosure care costs associated with its solid waste landfills as a liability, but the County does not have a system in place to ensure it is in compliance with these requirements.

Calculation of infrastructure depreciation:

- The County's system of internal controls over the calculation of depreciation was not appropriate for the account and did not ensure depreciation amounts were correctly calculated.

Cause of Condition

Preparation of the financial statements:

- Controls over financial statement preparation are focused only on the preparation of the different segments of the statements and do not include a final detailed review of the statements as a whole.

Accrual of landfill post-closure costs:

- The County was not aware that it is required to report the estimated closure and postclosure care costs associated with its solid waste landfills on its financial statements. Staff was not sufficiently familiar with the accounting standards to know of accounting requirements related to the landfill. The County does not have a system in place to monitor its compliance with applicable accounting standards.

Calculation of infrastructure depreciation:

- The County's internal controls over the calculation of depreciation consisted of a cursory review and did not include detailed testing. While this control was not designed to detect and correct errors at the calculation level in a timely manner, it also did not detect and correct a large error in the depreciation expense balance.

Effect of Condition

The County's financial information contained errors that were not detected by County personnel. During our review of the County's financial statements, we found the following errors that were subsequently corrected by the County:

- Liabilities for the Solid Waste Fund were understated by \$3.6 million in the financial statements because the County failed to report the estimated expenses associated with the cost of monitoring its three closed landfills, as required by the Department of Ecology. This error was material to the Solid Waste Fund.
- \$414,000 in payments for contractual services in the Solid Waste Fund were miscoded, resulting in an understatement in the amount paid for contractual services and an overstatement of the costs of other supplies and expenses.
- The County's Schedule of Expenditures of Federal Awards included incorrect expenditures and improperly identified federal identification numbers and pass-through agencies. This caused \$206,000 in expenditures to be incorrectly reported on the schedule.
- Errors and omissions in the notes to the financial statements and the management's discussion and analysis.
- Capital assets depreciation in the Governmental Activities area had been incorrectly calculated for three years, creating a net overstatement of accumulated depreciation by \$16,000. Due to these errors, depreciation expense for the audit period was understated by \$171,000. In addition, an adjustment to the accumulated depreciation expense was double-posted which further understated 2007 depreciation expense by \$704,000.

We also identified several other immaterial misstatements that were corrected on the final financial statements.

Moreover, the deficiencies in internal controls make it possible that more misstatements could occur and not be prevented or detected by the County in future years

Despite these internal control issues and noted errors, the County ultimately provided financial statements on which we are issuing an unqualified opinion.

Recommendation

We recommend the County establish and follow internal controls to ensure:

- Adequate oversight of financial reporting, including a review of the financial statements as a whole. The County should consult with the State Auditor's Office *Budgeting Accounting and Reporting System* (BARS) manual to ensure financial statements are properly presented.
- It is knowledgeable of and in compliance with Governmental Accounting Standards Board accounting standards.
- Depreciation expense as reported on the statements is calculated correctly.

County's Response

The County acknowledges that the conditions noted herein indicate that better internal controls to detect errors in financial reporting are necessary. Specific comments about the conditions follow:

Review of the complete financial statements, including the MD&A, by one qualified person was not possible due to the retirement of a senior, long term accounting staff member. A qualified person has since filled the position and will be able to complete the required review for 2008.

The last of the landfills requiring post closure cost accruals was closed in 1994. Subsequent audits did not detect omissions of the required GASB 18 disclosure, which was in effect at that time. The County appreciates the auditors bringing this omission to our attention; however, standard internal control procedures would not likely have detected this error.

The County agrees that the noted error in the depreciation calculation should have been detected and is taking measures to ensure staff oversight and accountability in the area of capital asset and depreciation tracking and reporting are put in place.

The County will provide oversight and monitoring of the departments involved to ensure that these measures are taken.

Auditor's Remarks

We thank County officials and personnel for their assistance and cooperation during the audit. We will review the status of the finding during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class. The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose

whatever, and by all public officers, employees, and other persons. The accounts shall show the receipt, use, and disposition of all public funds properly, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) manual – Part 3, Accounting, Chapter 1, states:

Accounting Principles and General Procedures, Section B, Internal Control, states in part: Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies. Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision, Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: A deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood hat a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: A significant deficiency or combination of significant deficiencies, those results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented detected.

Budget Accounting and Reporting System (BARS) manual – Vol 1, Part 4, Chapter 6, Page 84, states:

The following disclosures are required for all fund types and entities owning and operating the municipal solid waste landfills.

1. The nature and source of landfill closure and postclosure care requirements (federal, state, or local laws or regulations).
2. That recognition of a liability for closure and postclosure care costs is based on landfill capacity used to date.
3. The reported liability for closure and postclosure care at the balance sheet date (if not apparent from the financial statements) and the estimated total current cost of closure and postclosure care remaining to be recognized.

4. The percentage of landfill capacity used to date and estimated remaining landfill life in years.

5. How closure and postclosure care financial assurance requirements, if any, are being met. Also, any assets restricted for payment of closure and postclosure care costs (if not apparent from the financial statements).

6. The nature of the estimates and the potential for changes due to inflation or deflation, technology, or applicable laws or regulations.

For the sample text refer to the GASB Statement 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost, Appendix D.

Schedule of Prior Federal Audit Findings

Skagit County January 1, 2007 through December 31, 2007

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

Audit Period: 1/1/2006 – 12/31/2006	Report Reference No: 73661	Finding Reference No: 1	CFDA Number(s): 16.590
Federal Program Name and Granting Agency: Grants to Encourage Arrest Policies and Enforcement of Protection Orders – U.S. Department of Justice		Pass-Through Agency Name: NA	
Finding Caption: Skagit County did not have internal controls in place to ensure compliance with allowable cost requirements of its Department of Justice grant.			
Background: In 2006 the County reported \$338,250 in expenditures from its Department of Justice grant to pay for domestic violence prevention programs. We reviewed the County's internal controls and compliance with regulations over the grant. We reviewed internal controls over payroll transactions, which represent approximately 90 percent of program expenditures, to determine whether salaries and benefits charged to the grant were supported by adequate time and effort documentation as required by the federal compliance requirements. Depending on the number of activities on which an employee works, documentation can be provided in the form of a semiannual certification or a monthly personnel activity report, such as a time sheet. Grantees are also permitted to develop a substitute system in lieu of preparing certifications or time sheets. The County did not ensure all employees completed required documentation for payroll charges to the grant. We reviewed salaries charged to the grant for three employees. We found federal grant payments for salaries were not supported by required time and effort certifications for three employees for the entire year. The amounts we tested for a three-month period totaled \$14,261.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: For employees working full-time on grant funded activities, language was added to their twice-monthly time sheets certifying under oath that all time recorded had been worked on grant-funded activities. For employees working on other tasks in addition to grant-funded activities, monthly time and effort sheets are turned in setting forth daily hours worked in each area.			

Audit Period: 1/1/2006 – 12/31/2006	Report Reference No: 73661	Finding Reference No: 2	CFDA Number(s): 93.036
Federal Program Name and Granting Agency: Disaster Grants Public Assistance – Federal Emergency Management Agency		Pass-Through Agency Name: Military Department (FEMA)	
Finding Caption: Skagit County did not have internal controls in place to ensure compliance with requirements of its Federal Emergency Management grant.			
Background: In 2006 the County received \$155,464 in federal grant money from the Federal Emergency Management Agency (FEMA) to be used for approved projects related to events such as flooding. We reviewed the County's internal controls and compliance with grant regulations.			
<u>Allowable Costs</u> The County was unable to demonstrate that someone independent of reimbursement and payment processing reviewed documents to ensure only allowable costs are charged to the grant. We noted one purchase in the amount of \$1,365 for an item that was not allowed under the grant agreement.			
<u>Matching</u> The County was required to provide a match of 25 percent of allowable costs. The County was unable to demonstrate that it had internal controls in place to ensure it met the matching requirement.			
<u>Reporting</u> The County was required to submit reimbursement requests and quarterly status reports. We found the County did not have internal controls and processes in place to ensure accurate reports were filed. The County was unable to demonstrate that it had internal controls in place to ensure it met the reporting requirement.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: In an effort to address the 2006 findings from the State Auditor, Skagit County sent project managers, accounting staff and administration personnel to FEMA grant training as well as grant training by the State Auditor's Office. We also developed a process for project managers to verify allowable costs and sign reports indicating costs are allowable and complete. For all projects, Skagit County pays 100% of costs, seeking reimbursement from FEMA for 75%. For projects designated as "small projects", the reimbursement request only represents 75% of allowable project costs. On "large projects", FEMA requires the County submit 100% of all dollars spent. FEMA then audits the allowability of said costs and processes the 75% reimbursement, less retainage (which is reimbursed upon project completion and closeout by FEMA). Upon receipt of the reimbursement, Skagit County reconciles the payment back to the submitted costs to insure the reimbursement matches the proper percentage for that grant. Quarterly reports and reimbursement requests are checked by the grant manager for accuracy prior to signature by applicant agent.			

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Skagit County January 1, 2007 through December 31, 2007

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 20, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies involving the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control over financial reporting. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses to be significant deficiencies in internal control over financial reporting, and are reported as Finding 2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be

prevented or detected by the County's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

The County's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



BRIAN SONNTAG, CGFM
STATE AUDITOR

August 20, 2008

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Skagit County
January 1, 2007 through December 31, 2007

Board of Commissioners
Skagit County
Mount Vernon, Washington

COMPLIANCE

We have audited the compliance of Skagit County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2007. The County's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1.

INTERNAL CONTROL OVER COMPLIANCE

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an

opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The County's response to the finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 20, 2008

Independent Auditor's Report on Financial Statements

Skagit County January 1, 2007 through December 31, 2007

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed on page 18. 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 units, each major fund and the aggregate remaining fund information of Skagit County, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and County Roads 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 19 through 34 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". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 20, 2008

Financial Section

Skagit County January 1, 2007 through December 31, 2007

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2007

Statement of Activities – 2007

Balance Sheet – Governmental Funds – 2007

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – 2007

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2007

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2007

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund – 2007

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – County Roads – 2007

Statement of Net Assets – Proprietary Funds – 2007

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2007

Statement of Cash Flows – Proprietary Funds – 2007

Statement of Fiduciary Net Assets – Fiduciary Funds – 2007

Notes to the Financial Statements – 2007

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2007

Notes to the Schedule of Expenditures of Federal Awards – 2007

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, 2007. 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, 2007 by nearly \$410 million dollars. Net assets invested in capital assets (net of depreciation and related debt) account for 87% of this amount, with a value of over \$357 million. Of the remaining net assets, \$31.1 million was restricted for specific projects or programs and \$21.1 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- As of December 31, 2007, Skagit County's governmental activities reported combined ending net assets of over \$407 million. Of that amount, over \$357 million was invested in capital assets, \$31.1 million was legally restricted for specific projects or programs, and \$19.3 million was available for spending at the government's discretion.
- Fund balance for the General Fund was \$7.05 million dollars at December 31, 2007.
- Fund balance for the County Road fund was \$12.3 million dollars at December 31, 2007.
- Skagit County's total bonded long-term debt at December 31, 2007 was \$21.025 million, with a remaining capacity for non-voted debt at nearly \$231 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 2007, 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 2007.

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 nearly \$449 million as of December 31, 2007, an increase of \$755 thousand from the previous year, while liabilities stand at \$39.3 million, an increase of \$4.5 million from December 31, 2006.

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 \$409,708,329 at December 31, 2007 compared to \$413,458,398 in 2006. This net decrease of \$3.75 million (less than .01%) 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
	2007	2006	2007	2006	2007	2006	
Current and Other Assets	\$72,305,817	\$61,158,251	\$6,115,801	\$5,928,453	\$78,421,618	\$67,086,704	-14.45%
Capital Assets and Construction in Progress (Net of Depreciation)	365,669,388	376,327,997	4,895,707	4,817,291	370,565,095	381,145,288	2.86%
Total Assets	437,975,205	437,486,248	11,011,508	10,745,744	448,986,713	448,231,992	-0.17%
Long-Term Liabilities	22,893,638	21,705,978	4,552,777	5,394,555	27,446,415	27,046,463	-1.26%
Other Liabilities	7,501,343	7,063,935	4,330,626	609,126	11,831,969	7,673,061	-35.15%
Total Liabilities	30,394,981	28,769,913	8,883,403	6,003,681	39,278,384	34,719,524	-11.47%
Net Assets:							
Invested in Capital Assets,							
Net of Related Debt	357,149,388	366,147,997	367,220	(488,175)	357,516,608	365,659,822	2.28%
Restricted	31,094,299	22,616,026	-	-	31,094,299	22,616,026	-27.27%
Unrestricted	19,336,537	19,952,312	1,760,885	5,230,238	21,094,422	25,182,550	19.36%
Total Net Assets	407,580,224	\$408,716,335	2,128,105	\$4,742,063	409,708,329	\$413,458,398	0.92%

Of the \$78.4 million in current and other assets (compared to \$67.1 million at December 31, 2006), over \$62.7 million is in cash and cash equivalents and investments (up from \$52.4 million in 2006), nearly \$7.8 million is in accounts receivable and amounts due from other governments (up from \$7.6 million in 2006), \$5.7 million is in inventories/prepayments (the same as in 2006), over \$1.7 million is restricted for debt service (up from nearly \$1.3 million in 2006), and the remaining \$0.4 million is in deferred charges. At December 31, 2007, cash and cash equivalents and investments accounted for 80% (compared to 78.2% in 2006), while accounts receivable and amounts due from other governments accounted for 9.9% (compared to 11.3% from 2006).

At December 31, 2007, the County had outstanding liabilities of \$39.3 million (a \$4.5 million increase from 2006), with \$27.4 million in long term liabilities (an increase of \$0.4 million from 2006) and \$3.8 million in accrued liabilities (an increase of \$3.7 million from 2006). Of the long term liabilities, \$4.1 million was due

within a year (up from nearly \$3.5 million in 2006), 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. Of the accrued liabilities, \$3.6 million is a prior period adjustment for landfill closure and post-closure costs. Refer to the notes to the financial statements (Note IX.) for a more in-depth discussion of these costs.

The largest portion of the County's net assets (87.3%) 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, 7.6% 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 \$21.1 million (5.1% of net assets), represents the amount that may be used to meet the County's ongoing obligations.

At December 31, 2007, Skagit County reports positive balances in all three categories of net assets for the government as a whole, as well as for governmental activities and business-type activities. This is the first year that Skagit County has not had a negative balance in its business-type activities since the implementation of GASB 34 reporting in 2004. (The negative balance in capital assets was the result of the closure and demolition of the incinerator, in 1994 and 2000 respectively. The Solid Waste Fund carries the liability for the debt related to these activities.)

Statement of Changes in Net Assets

The County's total net assets decreased by \$3.75 million in 2007. Governmental activities showed a decrease of \$1.1 million while business-type activities showed a decrease of \$2.6 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	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$17,124,951	\$15,888,593	\$10,259,952	\$9,793,411	\$ 27,384,903	\$ 25,682,004
Operating Grants and Contributions	22,093,519	16,196,475	203,909	246,250	22,297,428	16,442,725
Capital Grants and Contributions	2,667,303	6,623,961	-	-	2,667,303	6,623,961
General Revenues:						
Taxes	56,699,397	51,282,667	-	-	56,699,397	51,282,667
Interest Earnings on Investments	4,578,687	3,183,945	266,841	192,586	4,845,528	3,376,531
Gain/(Loss) on Sale of Assets	-	417,575	-	-	-	417,575
Special Item	-	-	-	-	-	-
Total Revenues	<u>103,163,858</u>	<u>93,593,216</u>	<u>10,730,702</u>	<u>10,232,247</u>	<u>113,894,560</u>	<u>103,825,463</u>

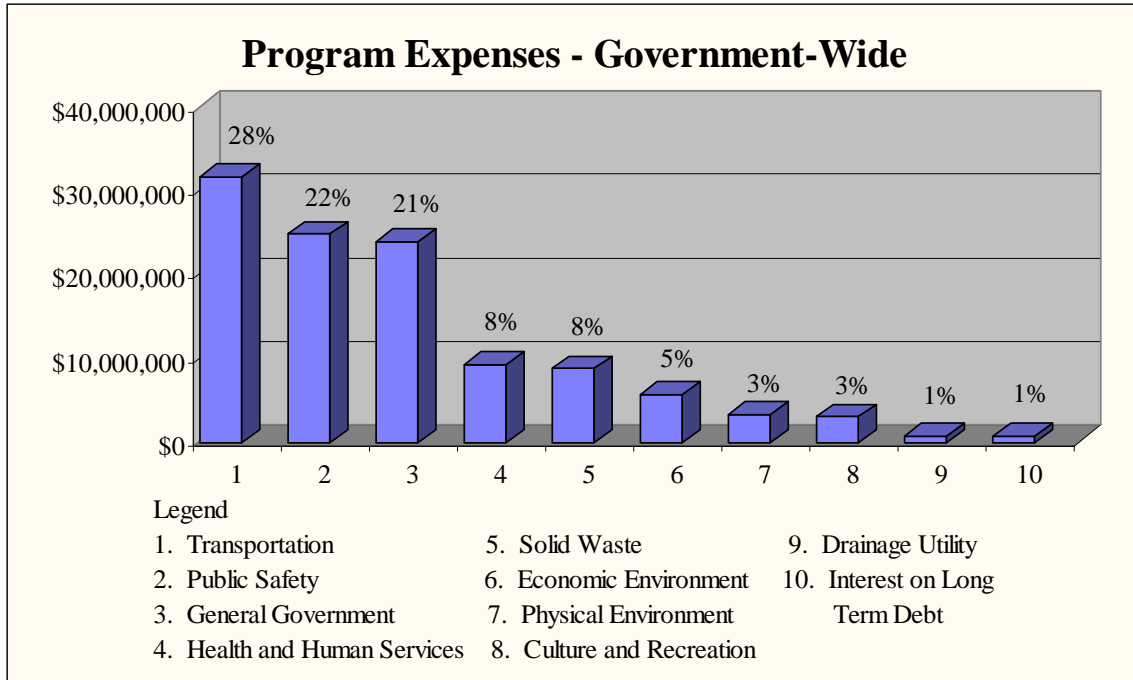
Program Expenses:

General Government	23,993,651	22,760,258	-	-	23,993,651	22,760,258
Public Safety	24,872,632	22,496,619	-	-	24,872,632	22,496,619
Physical Environment	3,509,248	2,161,454	-	-	3,509,248	2,161,454
Transportation	32,079,278	32,499,589	-	-	32,079,278	32,499,589
Economic Environment	5,763,176	6,149,970	-	-	5,763,176	6,149,970
Health and Human Services	9,293,864	8,409,308	-	-	9,293,864	8,409,308
Culture and Recreation	3,020,552	2,809,835	-	-	3,020,552	2,809,835
Solid Waste	-	-	8,775,500	8,548,400	8,775,500	8,548,400
Drainage Utility	-	-	787,587	644,188	787,587	644,188
Interest on Long Term Debt	708,941	544,820	-	-	708,941	544,820
Total Expenses Before Transfers	<u>103,241,342</u>	<u>97,831,853</u>	<u>9,563,087</u>	<u>9,192,588</u>	<u>112,804,429</u>	<u>107,024,441</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(77,484)	(4,238,637)	1,167,615	1,039,659	1,090,131	(3,198,978)
Transfers	<u>131,923</u>	<u>180,761</u>	<u>(131,923)</u>	<u>(180,761)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	54,439	(4,057,876)	1,035,692	858,898	1,090,131	(3,198,978)
Net Assets as of January 1	408,716,335	412,855,424	4,742,063	3,883,165	413,458,398	416,738,589
Prior Period Adjustment	<u>(1,190,550)</u>	<u>(81,213)</u>	<u>(3,649,650)</u>	<u>-</u>	<u>(4,840,200)</u>	<u>(81,213)</u>
Net Assets of Jan 1, Restated	407,525,785	412,774,211	1,092,413	3,883,165	408,618,198	416,657,376
Net Assets as of December 31	<u><u>407,580,224</u></u>	<u><u>\$408,716,335</u></u>	<u><u>\$2,128,105</u></u>	<u><u>\$4,742,063</u></u>	<u><u>\$409,708,329</u></u>	<u><u>\$413,458,398</u></u>

Total revenues for Skagit County were nearly \$113.9 million in 2007, an increase of \$10.1 million from 2006. Governmental activities provided \$103.2 million (90.6%), while business-type activities added \$10.7 million. This split had no significant change from 2006. Within governmental activities, tax revenue accounted for 55% of total revenue sources (compared to 54.8% in 2006), with grants and contributions accounting for 24% (down from 24.4% in 2006).

Of the \$10.7 million in business-type activities program revenues and interest earnings, 96% was provided by charges for services (the same as in 2006), with the remaining amount provided by grants, contributions, and interest income.

Expenses for the year totaled \$112.8 million, an increase of \$5.8 million over 2006. Governmental Activities accounted for \$103.2 million (91.5%), with the largest program expenses in the areas of transportation, public safety and general government, respectively. These three programs accounted for 78.4% of total governmental expenses, a decrease of 1.1% from 2006. Of the \$9.6 million in business-type expenses, 92% are associated with the solid waste program, a 1% decrease from 2006. Following is a graph which illustrates by program where funds were spent in 2007.

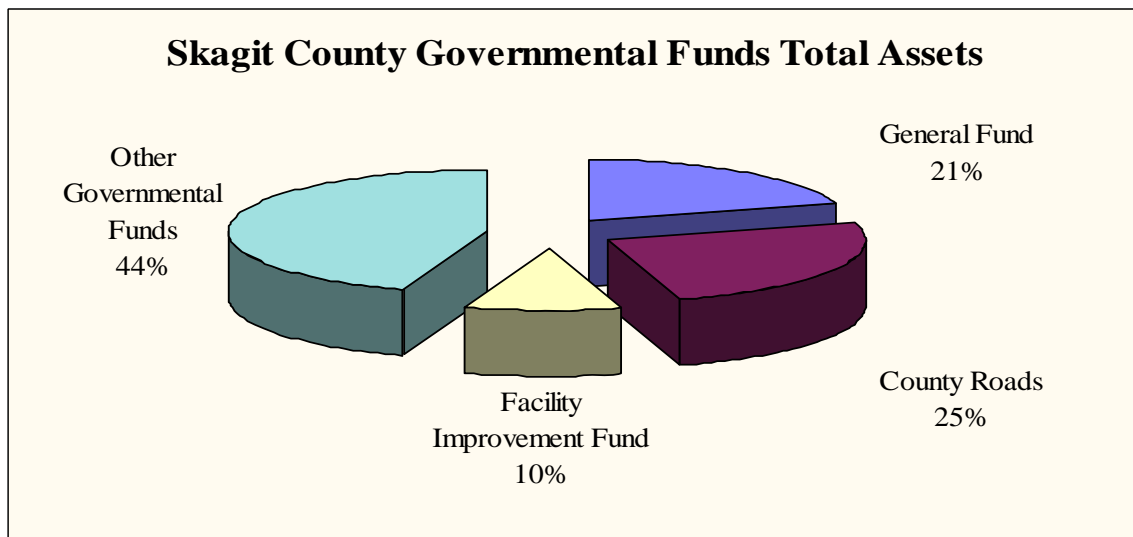


FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

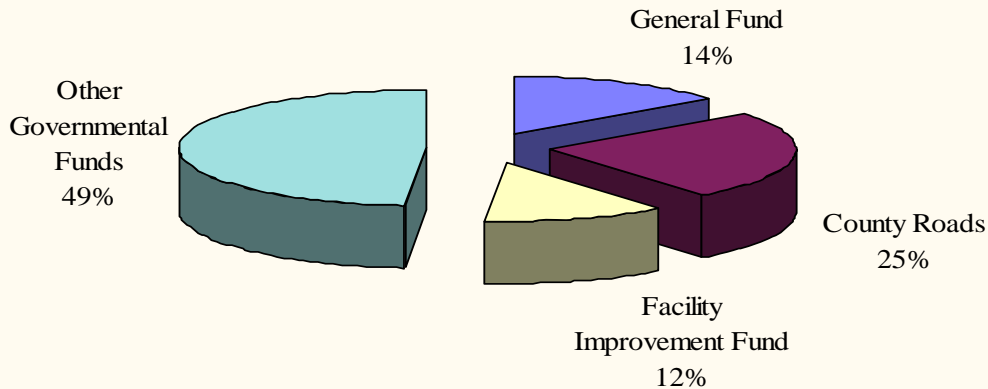
As noted earlier, Skagit County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following are financial analyses of the County's governmental and proprietary funds.

Governmental Funds Balance Sheet Analysis

The General Fund, County Road Fund, and Facility Improvement Fund are the County's major funds in 2007, the same as 2006. Together these funds account for 55% of total governmental fund assets and 51% of total governmental fund balance.



Skagit County Governmental Funds Fund Balance



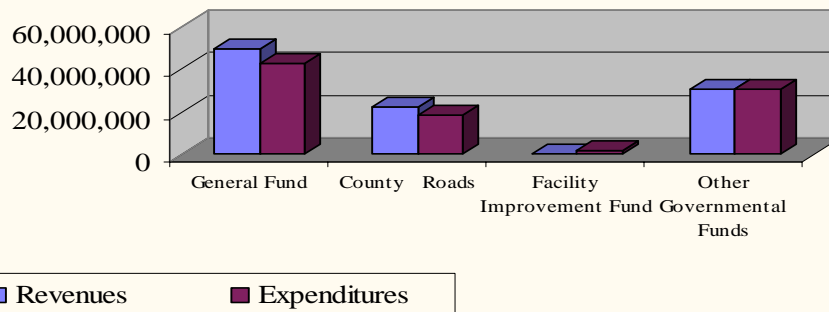
The focus of Skagit County’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year. As of December 31, 2007, the county’s governmental funds reported combined fund balances of \$49 million, an increase from \$39.9 million in 2006. Of this total amount, nearly \$46.7 million (95%) is unreserved and available for spending within the designated funds. Reserved fund balance of \$2.3 million is not available for new spending because it has already been committed to prepaid expenses, loans and debt service.

The General Fund is the chief operating fund of Skagit County. On December 31, 2007, unreserved fund balance of the General Fund increased from nearly \$4.5 million in 2006 to \$6.4 million, while total fund balance increased from nearly \$5 million to over \$7 million. Total assets in the General Fund amounted to nearly \$12.4 million, accounting for 20.5% of total governmental fund assets, an increase in dollar amount from \$10.2 million (and an increase in percentage - 19.8%) in 2006.

Governmental Funds Revenue/Expenditure Analysis

The following chart shows the revenue and expenditure amounts for the year ended December 31, 2007 for the three major governmental funds and for all other governmental funds.

Skagit County Major and Other Governmental Funds Revenues and Expenditures



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 \$10.4 million in 2007, with \$5.1 million accounted for in Other Governmental Funds and \$4.2 million accounted for in the General Fund. During the same period, total expenditures increased over \$3.5 million. The General Fund accounted for a \$2.6 million increase, the County Road fund accounted for a \$4.2 million decrease, with the remaining balance of \$5.1 million accounted for in the Facility Improvement Fund and other governmental funds. The General Fund and the County Road fund account for 69.9% of all governmental fund revenue (down from 72.3% in 2006) and 65% of all expenditures (down from 69% in 2006). 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 2007 was a positive \$2.1 million. The increase in fund balance for the County Road fund was \$3.6 million and due to the schedule of projects. The decrease of \$1.1 million in fund balance for the Facility Improvement Fund was due to the spending of bond proceeds to construct or purchase capital facilities. Governmental funds had an overall positive net change in fund balance of nearly \$9.3 million for 2007.

Enterprise Funds Net Assets Analysis

Both of the enterprise funds of Skagit County, Solid Waste and the Drainage Utility, are considered major funds for 2007. The following table reflects the Proprietary Funds Statement of Net Assets as of December 31, 2007.

Skagit County						
Proprietary Fund Net Assets						
Business-Type Activities - Enterprise Funds						
	Solid Waste		Drainage Utility		Total	
	2007	2006	2007	2006	2007	2006
ASSETS						
<u>Current Assets</u>						
Cash/Cash Equivalents	\$3,504,870	\$648,370	\$2,552,344	\$911,414	\$6,057,214	\$1,559,784
Other Current Assets	746,203	3,649,326	35,747	1,649,009	781,950	5,298,335
Total Current Assets	<u>4,251,073</u>	<u>4,297,696</u>	<u>2,588,091</u>	<u>2,560,423</u>	<u>6,839,164</u>	<u>6,858,119</u>
<u>Noncurrent Assets</u>						
Construction In Progress	-	54,224	751,347	792,041	751,347	846,265
Capital Assets	3,004,140	2,951,123	4,174,999	3,898,729	7,179,139	6,849,852
Less Accumulated Depreciation	(2,338,066)	(2,302,544)	(696,711)	(576,282)))
Unamortised Issuance Costs	24,290	35,019	-	-	24,290	35,019
Total Noncurrent Assets	<u>690,362</u>	<u>737,822</u>	<u>4,229,635</u>	<u>4,114,488</u>	<u>4,919,999</u>	<u>4,852,310</u>
Total Assets	<u><u>4,941,435</u></u>	<u><u>5,035,518</u></u>	<u><u>6,817,726</u></u>	<u><u>6,674,911</u></u>	<u><u>11,759,163</u></u>	<u><u>11,710,429</u></u>

**Skagit County
Proprietary Fund Net Assets**

	Business-Type Activities - Enterprise Funds					
	Solid Waste		Drainage Utility		Total	
	2007	2006	2007	2006	2007	2006
LIABILITIES AND FUND EQUITY						
<u>Current Liabilities</u>						
Accounts Payable and Other Current Liabilities	1,874,110	2,088,946	264,519	348,935	2,138,629	2,437,881
Total Current Liabilities	<u>1,874,110</u>	<u>2,088,946</u>	<u>264,519</u>	<u>348,935</u>	<u>2,138,629</u>	<u>2,437,881</u>
<u>Noncurrent Liabilities</u>						
Post Closure Landfill Costs	3,649,650	-	-	-	3,649,650	-
Bonds Payable	3,842,777	4,530,485	-	-	3,842,777	4,530,485
Other Noncurrent Liabilities	-	-	-	-	-	-
Total Noncurrent Liabilities	<u>7,492,427</u>	<u>4,530,485</u>	<u>-</u>	<u>-</u>	<u>7,492,427</u>	<u>4,530,485</u>
Total Liabilities	<u>9,366,537</u>	<u>6,619,431</u>	<u>264,519</u>	<u>348,935</u>	<u>9,631,046</u>	<u>6,968,366</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	(3,862,415)	(4,602,663)	4,229,635	4,114,488	367,220	(488,175)
Unrestricted	<u>(562,687)</u>	<u>3,018,750</u>	<u>2,323,572</u>	<u>2,211,488</u>	<u>1,760,885</u>	<u>5,230,238</u>
Total Net Assets	<u>(\$4,425,102)</u>	<u>3)</u>	<u>\$6,553,207</u>	<u>\$6,325,976</u>	<u>\$2,128,105</u>	<u>\$4,742,063</u>

As of December 31, 2007, the County's enterprise funds reported combined net assets of \$2.1 million (compared to \$4.7 million in 2006), made up of a deficit of \$4.4 million in the Solid Waste fund (up from \$1.6 million in 2006) and a positive \$6.6 million in the Drainage Utility (up from \$6.3 million in 2006). 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 as well as an accrued liability for post closure landfill costs. The combined funds have net assets \$1.8 million unrestricted and available in accordance with the needs of the programs (compared to \$5.2 million in 2006).

Enterprise Funds Revenue/Expenditure Analysis

Revenues from the Solid Waste fund contributed 89% of the total revenues for enterprise funds in 2007, a decrease from 90% in 2006. 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	
	2007	2006	2007	2006	2007	2006
<i>Revenues</i>						
Charges for Services	\$9,230,100	\$8,805,437	\$1,028,099	\$986,778	\$10,258,199	\$9,792,215
Intergovernmental	198,062	233,827	5,847	12,423	203,909	246,250
Interest Revenue	154,045	137,193	112,796	55,393	266,841	192,586
Miscellaneous Revenue	1,753	1,196	-	-	1,753	1,196
Total Revenues	9,583,960	9,177,653	1,146,742	1,054,594	10,730,702	10,232,247
<i>Expenditures</i>						
Personal Services	1,517,537	1,440,702	341,445	210,600	1,858,982	1,651,302
Contractual Services	5,425,819	5,165,495	-	-	5,425,819	5,165,495
Other Supplies and Expenses	1,580,940	1,669,732	325,713	315,630	1,906,653	1,985,362
Depreciation	35,522	33,755	120,428	117,958	155,950	151,713
Loss on Disposition of Capital Assets	-	-	-	-	-	-
Interest Expense	215,682	238,716	-	-	215,682	238,716
Total Expenditures	8,775,500	8,548,400	787,586	644,188	9,563,086	9,192,588
Income (Loss) Before Transfers	808,461	629,253	359,156	410,406	1,167,616	1,039,659
Capital Contributions	-	-	-	-	-	-
Interfund Transfers	-	-	(131,923)	(180,761)	(131,923)	(180,761)
Change in Net Assets	808,461	629,253	227,233	229,645	1,035,693	858,898
Total Net Assets - Beginning	(1,583,913)	(2,213,166)	6,325,975	6,096,331	4,742,062	3,883,165
Prior Period Adjustment	(3,649,650)	-	-	-	(3,649,650)	-
Net Assets January 1 - Restated	(5,233,563)	(2,213,166)	6,325,975	6,096,331	1,092,412	3,883,165
Total Net Assets - Ending	(\$4,425,102)	(\$1,583,913)	\$6,553,208	\$6,325,975	\$2,128,105	\$4,742,062

Total expenses for the funds were 89% of revenues, a slight decrease from nearly 90% in 2006. The net positive change in net assets was \$1 million, an increase of less than \$0.2 million from 2006.

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 \$300,000, an increase of less than 1%, while changes to total expenditures were more significant at \$1.05 million, an increase of 2.4%. The following table shows the changes between the original and the final General Fund budget as of December 31, 2007.

Skagit County, Washington
General Fund Changes in Budget
As of December 31, 2007

	2007		Changes Favorable (Unfavorable)
	Original Budget	Final Budget	
<u>Revenues</u>			
Taxes	\$29,947,024	\$29,947,024	\$ -
Licenses & Permits	1,291,170	1,291,170	-
Intergovernmental Revenue	7,787,455	7,974,074	186,619
Charges for Goods and Services	4,976,223	5,003,769	27,546
Fines and Forfeits	1,803,050	1,872,050	69,000
Interest Revenue	2,240,854	2,256,854	16,000
Miscellaneous Revenues	386,969	391,900	4,931
Total Revenues	48,432,745	48,736,841	304,096
<u>Expenditures</u>			
General Government Services	22,825,215	23,542,475	(717,260)
Security of Persons and Property	17,258,542	17,412,665	(154,123)
Utilities and Environment	338,756	340,101	(1,345)
Economic Environment	3,114,281	3,134,790	(20,509)
Mental/Physical Health	258,315	302,940	(44,625)
Culture and Recreation	493,817	511,728	(17,911)
Capitalized Expenditures	-	97,098	(97,098)
Total Expenditures	44,288,926	45,341,797	(1,052,871)
Excess (Deficit) Revenues Over Expenditures	4,143,819	3,395,044	(748,775)
<u>Other Financing Sources (Uses)</u>			
Fixed Asset Dispositions	-	-	-
Operating Transfers In	162,749	162,749	-
Operating Transfers Out	(4,306,568)	(4,537,596)	(231,028)
Total Other Financing Sources (Uses)	(4,143,819)	(4,374,847)	(231,028)
Excess (Deficit) Resources Over Uses	-	(979,803)	(979,803)
Fund Balance, January 1	5,014,782	5,014,782	-
Fund Balance, December 31	\$5,014,782	\$4,034,979	(\$979,803)

Budgeted expenditure increases outpaced revenue increases by nearly \$1 million in 2007. The largest change in the revenue budget was an increase of \$186,600 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 68% of the increase with security of persons and property accounting for nearly 15%. The remainder was split among all other programs.

Significant increases for the general fund budget are noted below:

- \$325,000 for the Prosecuting Attorney's office for legal fees related to litigation and ongoing legal matters.
- \$114,157 for a Washington State Patrol Law Enforcement Terrorism Prevention Grant excluded from the adopted budget.
- \$105,000 for the Public Defender staff for salaries and benefits subsequent to settlement of a bargaining agreement.
- \$78,146 for the Prosecuting Attorney staff for salaries and benefits subsequent to settlement of severance packages and reorganization.
- \$75,000 for contracted attorneys in Assigned Counsel.

General Fund Budget to Actual

Total General Fund budgeted revenues of \$48.7 million were under actual revenues received of \$49.9 million. The most notable variances are the increases in both charges for goods and services and interest revenue from the budget to the actual. Other variances include the decrease from budget to actual in intergovernmental revenues and licenses & permits. A portion of both the increase in charges for goods and services and the decrease in intergovernmental revenue are due to revenue being budgeted as a grant but later determined to be a charge for goods and services. The decrease in licenses and permits was primarily in the Planning and Development Services area of the budget. 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 52% and 36% of the total expenditure variance respectively. Economic environment accounts for 8%. The remaining 4% is spread among the remaining categories. Overall the general fund finished the year 4.6% under budget.

Skagit County, Washington
General Fund Changes - Budget vs Actual
As of December 31, 2007

	2007		
	Final		Changes
<i>Revenues</i>	Budget	Actual	Favorable (Unfavorable)
Taxes	\$29,947,024	\$29,892,680	(\$54,344)
Licenses & Permits	1,291,170	1,087,455	(203,715)
Intergovernmental Revenue	7,974,074	7,622,127	(351,947)
Charges for Goods and Services	5,003,769	5,927,093	923,324
Fines and Forfeits	1,872,050	1,952,148	80,098
Interest Revenue	2,256,854	3,013,216	756,362
Miscellaneous Revenues	391,900	388,071	(3,829)
Total Revenues	<u>\$48,736,841</u>	<u>49,882,790</u>	<u>1,145,949</u>
<i>Expenditures</i>			
General Government Services	\$23,542,475	22,461,959	1,080,516
Security of Persons and Property	17,412,665	16,659,590	753,075
Utilities and Environment	340,101	260,163	79,938
Economic Environment	3,134,790	2,962,791	171,999
Mental/Physical Health	302,940	293,745	9,195
Culture and Recreation	511,728	453,901	57,827
Capitalized Expenditures	97,098	153,623	(56,525)
Total Expenditures	<u>\$45,341,797</u>	<u>43,245,772</u>	<u>2,096,025</u>
Excess (Deficit) Revenues Over Expenditures	<u>3,395,044</u>	<u>6,637,018</u>	<u>3,241,974</u>
<i>Other Financing Sources (Uses)</i>			
Issuance of Long Term Debt			
Fixed Asset Dispositions	-	-	-
Operating Transfers In	162,749	39,926	(122,823)
Operating Transfers Out	(4,537,596)	(4,537,596)	-
Total Other Financing Sources (Uses)	<u>(4,374,847)</u>	<u>(4,497,670)</u>	<u>(122,823)</u>
Excess (Deficit) Resources Over Uses	<u>(979,803)</u>	<u>2,139,348</u>	<u>3,119,151</u>
Fund Balance, January 1	5,014,782	5,014,782	
Prior Period Adjustment	-	(107,397)	(107,397)
Fund Balance, January 1, restated	<u>5,014,782</u>	<u>4,907,385</u>	
Fund Balance, December 31	<u>\$4,034,979</u>	<u>7,046,733</u>	<u>3,011,754</u>

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, 2007, amounts to nearly \$371 million (net of accumulated depreciation). 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:

- Skagit County purchased development rights on 620.03 acres of farmland through the Farmland Legacy Program for nearly \$975,000. A total of 10 development rights were purchased. An additional 96 acres had conservation easements placed on them eliminating any potential future development.
- The County purchased a building at 1730 Continental Place, adjacent the current County Commissioners Administration building for \$343,000.
- A remodel was completed for \$260,000 on the Triage Center at 201 Lila Lane in Burlington to be used for Mental Health.
- Construction started late in 2007 on the Data center at 2911 East College Way that will house data transmission infrastructure. Expenses for 2007 were \$251,000.
- Lighting at the Skagit Dream Field adjacent the Skagit Valley College was completed for \$355,000.

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, 2007, Skagit County had total bonded debt outstanding of \$21.025 million (down from \$22.3 million in 2006). Of that, \$16.355 million (down from \$16.8 million) is classified as governmental activity and \$4.67 million (down from \$5.48 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 decrease of \$1.24 million during 2007. The County's remaining capacity for non-voted debt at December 31, 2007 was approximately \$231 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 strong year for the Skagit County economy. The number of individuals employed in the community continued to set record marks. Industry sectors that remained very strong include marine, wood products, aerospace, construction, agriculture and healthcare. Employment in Skagit County increased by 2.6% in 2007.

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 received 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.
- In December 2005, the Board of County Commissioners signed a resolution creating the Skagit County Clean Water (Shellfish Protection) District. While assessments were authorized at this time, collection didn't begin until the 2007 tax year. The assessment was authorized for 3 years.

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, 2007

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		
ASSETS				
Cash/Cash Equivalents	\$32,208,989	\$5,757,214	\$37,966,203	\$300,102
Investments	24,498,973	300,000	24,798,973	2,300,781
Receivables	3,628,969	560,781	4,189,750	522,971
Due From Other Governments	3,393,841	174,472	3,568,313	
Internal Balances	736,846	(736,846)	0	
Inventories/Prepayments	5,695,613	35,890	5,731,503	
Deferred Charges	397,024	24,290	421,314	
Restricted Assets:				
Restricted for Debt Service:				
Cash/Cash Equivalents	96,947		96,947	
Investments	1,570,916		1,570,916	
Receivables	77,699		77,699	
Capital Assets (Net of Depreciation)	365,669,388	4,144,360	369,813,748	963,219
Construction in Progress	0	751,347	751,347	
Total Assets	\$437,975,205	\$11,011,508	\$448,986,713	\$4,087,073
LIABILITIES				
<u>Liabilities</u>				
Accounts Payable and Other Current Liabilities	\$4,669,110	\$506,952	\$5,176,062	\$40,565
Claims Payable	426,875		426,875	
Accrued Liabilities	2,119,783	3,823,674	5,943,457	189,311
Due to Other Governments	285,575		285,575	13,622
Long Term Liabilities:				
Other Due Within One Year	3,436,651	710,000	4,146,651	
Other Due In More Than One Year	19,456,987	3,842,777	23,299,764	273,405
Total Liabilities	\$30,394,981	\$8,883,403	\$39,278,384	\$516,903
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	\$357,149,388	\$367,220	\$357,516,608	\$963,218
Restricted for:				
General Government	3,395,296	0	3,395,296	
Public Safety	1,277,311	0	1,277,311	
Physical Environment	1,599,027	0	1,599,027	
Transportation	12,468,721	0	12,468,721	
Economic Environment	6,736,233	0	6,736,233	
Health & Human Services	3,742,971	0	3,742,971	
Culture and Recreation	216,080	0	216,080	
Debt Service	1,658,660	0	1,658,660	
Unrestricted (Deficit)	19,336,537	1,760,885	21,097,422	2,606,952
Total Net Assets	\$407,580,224	\$2,128,105	\$409,708,329	\$3,570,170

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Activities
For the year ended December 31, 2007

Functions/Programs Primary Government:	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	
Governmental Activities:							
General Government	\$23,993,651	\$6,116,977	\$4,781,291		(\$13,095,384)	\$0	\$0
Public Safety	24,872,632	1,449,743	3,744,823		(19,678,066)	0	0
Physical Environment	3,509,248	440,067	1,082,580	487,000	(1,499,601)	0	0
Transportation	32,079,278	3,918,644	5,649,461	2,180,303	(20,330,871)	0	0
Economic Environment	5,763,176	2,576,391	956,829		(2,229,956)	0	0
Health and Human Services	9,293,864	1,691,416	5,671,062		(1,931,386)	0	0
Culture and Recreation	3,020,552	931,713	207,476		(1,881,363)	0	0
Interest on Long Term Debt	708,941				(708,941)	0	0
Total Governmental Activities	\$103,241,342	\$17,124,951	\$22,093,519	\$2,667,303	\$ (61,355,568)	\$ -	\$ (61,355,568)
Business-Type Activities							
Solid Waste	\$8,775,500	\$9,231,853	\$198,062	\$0	\$0	\$654,415	\$654,415
Drainage Utility	787,587	1,028,099	5,847	0	0	246,359	246,359
Total Business-Type Activities	\$9,563,087	\$10,259,952	\$203,909	\$0	\$0	\$900,774	\$900,774
Total Primary Government	\$ 112,804,429	\$ 27,384,903	\$ 22,297,428	\$ 2,667,303	\$ (61,355,568)	\$ 900,774	\$ (60,454,794)
Component Unit							
Emergency Medical Services Commission	\$ 5,565,526	\$ 3,171,412	\$ 2,683,318	\$0	\$0	\$0	\$0
Total Component Unit	\$ 5,565,526	\$ 3,171,412	\$ 2,683,318	\$0	\$0	\$0	\$0
General Revenues							
Taxes							
Property					\$34,519,624	\$0	\$34,519,624
Sales					16,628,142	0	16,628,142
Other					5,551,631	0	5,551,631
Interest and Investment earnings					4,578,687	266,841	4,845,528
Gain/(Loss) on Sales of Capital Assets					0	0	0
Transfers					131,923	(131,923)	0
Total General Revenues and Transfers					\$61,410,007	\$134,918	\$61,544,925
Change in Net Assets					\$ 54,439	\$ 1,035,692	\$ 1,090,131
Net Assets as of January 1					408,716,335	4,742,063	413,458,398
Prior period adjustment					(1,190,550)	(3,649,650)	(4,840,200)
Net Assets adjusted - January 1					407,525,785	1,092,413	408,618,198
Net Assets - December 31					\$407,580,224	\$2,128,105	\$409,708,329

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON

Balance Sheet Governmental Funds December 31, 2007

	Major Funds				Total
	General	County	Facility	Other	
	Fund	Roads	Improvement	Funds	
ASSETS					
Cash/Cash Equivalents	\$7,071,166	\$5,980,746	\$923,178	\$13,233,420	\$27,208,510
Investments	0	5,975,854	5,058,429	11,279,481	22,313,764
Taxes Receivable	621,820	266,073	0	151,533	1,039,426
Accounts Receivable	1,519,411	597,895	0	6,821	2,124,127
Interest Receivable	301,246	0	0	0	301,246
Due From Other Funds	1,338,614	905,978	0	546,885	2,791,477
Due From Other Governmental Units	692,794	1,176,780	0	1,506,967	3,376,541
Interfund Loans Receivable	459,000	0	0	0	459,000
Inventories/Prepayments	366,287	98,666	582	172,351	637,886
Total Assets	\$12,370,339	\$15,001,991	\$5,982,189	\$26,897,458	\$60,251,977
 LIABILITIES AND FUND BALANCES					
<u>Liabilities</u>					
Accounts/Vouchers Payable	\$976,872	\$717,635	\$96,920	\$1,087,442	\$2,878,869
Due To Other Funds	722,932	1,425,544	421	566,381	2,715,278
Due To Other Governmental Units	10,874	0	0	274,701	285,575
Accrued Wages Payable	987,205	224,916	288	227,623	1,440,032
Accrued Employee Benefits	364,721	87,378	98	90,613	542,810
Custodial Accounts	12,348	24,381	0	199,001	235,730
Deferred Revenue	2,248,655	266,073	0	161,533	2,676,261
Long-Term Interfund Loans Payable	0	0	0	459,000	459,000
Total Liabilities	\$5,323,607	\$2,745,927	\$97,727	\$3,066,294	\$11,233,555
 <u>Fund Balance</u>					
Reserved for:					
Prepaid Items	\$146,636	\$35,942	\$537	\$37,329	\$220,444
Reserved for Loans Receivable	459,000	0	0	0	459,000
Debt Service	0	0	0	1,658,600	1,658,600
Unreserved, Undesignated, Reported in:					
General Fund	6,441,097	0	0	0	6,441,097
Special Revenue Funds	0	12,220,122	0	13,903,394	26,123,516
Capital Project Funds	0	0	5,883,925	8,231,841	14,115,766
Total Fund Balances	\$7,046,733	\$12,256,064	\$5,884,462	\$23,831,164	\$49,018,423
Total Liabilities and Fund Balances	\$12,370,339	\$15,001,991	\$5,982,189	\$26,897,458	\$60,251,977

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, 2007

Total fund balances as shown on the Governmental Fund Balance Sheet	\$49,018,423
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 12/31/2007. (This amount does not include internal service fund capital assets, which are included as a reconciling item in a note found below.)	358,361,934
Deferred charges for interest paid on refunded debt not attributable for the current period.	397,024
Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.	2,913,967
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.	19,570,974
Long-term liabilities that are not due and payable in the current period and are not reported in the funds.	(22,682,098)
 Total net assets as reported on the Statement of Net Assets:	 \$407,580,224

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, 2007

	Major Funds				Total
	General Fund	County Roads	Facility Improvement Fund	Other Governmental Funds	
Revenues	\$19,187,924	\$10,090,697	\$0	\$5,386,737	\$34,665,358
Property Taxes	8,869,681	0	0	7,758,461	16,628,142
Sales and Use Taxes	1,835,075	367,664	0	3,348,892	5,551,631
Other Taxes	1,087,455	109,758	0	557,334	1,754,547
Licenses and Permits	7,622,127	7,671,940	0	9,129,858	24,423,925
Intergovernmental	5,927,093	3,758,137	0	2,706,419	12,391,649
Charges for Services	1,952,148	0	0	252,987	2,205,135
Fines and Forfeits	3,013,216	350,035	301,410	676,320	4,340,981
Interest Earnings	87,973	0	0	366,807	454,780
Donations	300,098	50,748	0	680,984	1,031,830
Other Revenues	\$49,882,790	\$22,398,979	\$301,410	\$30,864,799	\$103,447,978
Total Revenues	\$22,405,292	\$226,672	\$0	\$734,337	\$23,366,301
Expenditures	16,659,590	0	0	8,437,109	25,096,699
Current:	260,163	0	0	3,043,909	3,304,072
General Governmental Services	0	18,074,233	0	68,807	18,143,040
Public Safety	2,962,791	0	0	2,893,930	5,856,721
Utilities and Environment	293,745	0	0	9,058,207	9,351,952
Transportation	453,901	0	0	2,500,949	2,954,850
Economic Environment	56,667	0	0	903,760	960,427
Health and Human Services	0	0	0	685,115	685,115
Culture and Recreation	153,623	36,654	2,157,171	2,614,094	4,961,542
Debt Service:	\$43,245,772	\$18,337,559	\$2,157,171	\$30,940,217	\$94,680,719
Principal	\$6,637,018	\$4,061,420	(\$1,855,761)	(\$75,418)	\$8,767,259
Interest	0	0	0	0	0
Capital Outlay	0	0	0	0	0
Total Expenditures	\$6,637,018	\$4,061,420	(\$1,855,761)	(\$75,418)	\$8,767,259
Excess (Deficit) Revenues Over Expenditures	\$0	\$0	\$0	(\$5,735,000)	(\$5,735,000)
Other Financing Sources (Uses)	0	0	0	(397,024)	(397,024)
Prints to Refund Escrow Agent Principal	0	0	0	6,115,000	6,115,000
Prints to Refund Escrow Agent Int & Exp	0	0	0	21,740	21,740
Issuance of Refunding Bonds	0	0	0	425,568	425,568
Premium on Refunding Bond Issuance	0	0	0	0	0
Issuance of Long Term Debt	39,926	0	764,911	7,799,429	8,604,266
Proceeds of Sale of Capital Assets	(4,537,596)	(417,541)	0	(3,517,206)	(8,472,343)
Transfers In	(\$4,497,670)	(\$417,541)	\$764,911	\$4,712,507	\$562,207
Transfers Out	\$2,139,348	\$3,643,879	(\$1,090,850)	\$4,637,089	\$9,329,466
Total Other Financing Source (Uses)	5,014,782	8,828,062	6,975,313	\$19,086,678	\$39,904,835
Net Change in Fund Balance	(107,397)	(215,876)	0	107,397	(215,876)
Fund Balance-January 1	4,907,385	8,612,186	6,975,313	19,194,075	39,688,959
Prior Period Adjustment	\$7,046,733	\$12,256,065	\$5,884,463	\$23,831,164	\$49,018,425
Fund Balance as of Jan 1 restated					
Fund Balance-December 31					

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, 2007

Net change in fund balances as shown on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance:	\$9,329,466
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.	(10,818,277)
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	965,829
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.	333,281
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 2007.	(284,120)
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.	<u>528,260</u>
Change in net assets as reflected in the Statement of Activities	\$54,439
<u>Prior period adjustments reconciliation:</u>	
Prior period adjustment as shown on Governmental Funds Statement of Revenues,	\$215,876
In 2003 a loan for \$850,000 was received from CERB as described in the Notes to the Financial Statements, however the liability was not recorded when the GASB 34 conversion was implemented. Interest was deferred until 2008, and at the time of payment the omission was discovered. An increase in LT Liabilities of \$850,000 is required.	850,000
In 2005 loan proceeds from the Department of Ecology were recorded as revenue, but the liability was omitted from the Statement of Net Assets.	<u>124,674</u>
Prior period adjustment reported in the Statement of Activities	\$1,190,550

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, 2007

REVENUES:	Original Budget	Final Budget	ACTUAL	Variance with Final Budget Positive/ (Negative)
Taxes	\$29,947,024	\$29,947,024	\$29,892,680	(\$54,344)
Licenses & Permits	1,291,170	1,291,170	1,087,455	(203,715)
Intergovernmental Revenue	7,787,455	7,974,074	7,622,127	(351,947)
Charges for Goods and Services	4,976,223	5,003,769	5,927,093	923,324
Fines and Forfeits	1,803,050	1,872,050	1,952,148	80,098
Interest Revenue	2,240,854	2,256,854	3,013,216	756,362
Miscellaneous Revenues	386,969	391,900	388,071	(3,829)
TOTAL REVENUES	\$48,432,745	\$48,736,841	\$49,882,790	\$1,145,949
EXPENDITURES:				
General Government Services	\$22,825,215	\$23,542,475	\$22,405,292	\$1,137,183
Security of Persons and Property	17,258,542	17,412,665	16,659,590	753,075
Utilities and Environment	338,756	340,101	260,163	79,938
Economic Environment	3,114,281	3,134,790	2,962,791	171,999
Mental/Physical Health	258,315	302,940	293,745	9,195
Culture and Recreation	493,817	511,728	453,901	57,827
Debt Service	0	0	56,667	(56,667)
Capitalized Expenditures	0	97,098	153,623	(56,525)
TOTAL EXPENDITURES	\$44,288,926	\$45,341,797	\$43,245,772	\$2,096,025
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$4,143,819	\$3,395,044	\$6,637,018	\$3,241,974
OTHER FINANCING SOURCES (USES):				
Issuance of Long Term Debt			\$0	\$0
Fixed Asset Dispositions			0	0
Transfers In	162,749	162,749	39,926	(122,823)
Transfers Out	(4,306,568)	(4,537,596)	(4,537,596)	0
TOTAL OTHER FINANCING SOURCES (USES)	(\$4,143,819)	(\$4,374,847)	(\$4,497,670)	(\$122,823)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$0	(\$979,803)	\$2,139,348	\$3,119,151
FUND BALANCES:				
Fund Balance, January 1	\$5,014,782	\$5,014,782	\$5,014,782	
Prior Period Adjustment			(107,397)	(107,397)
Fund Balance as of Jan 1 restated			\$4,907,385	
FUND BALANCE, DECEMBER 31	\$5,014,782	\$4,034,979	\$7,046,733	

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, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
Revenues				
General Property Taxes	\$9,484,877	\$9,484,877	\$10,090,697	\$605,820
Timber Harvest Taxes	276,990	276,990	323,603	46,613
Excise Taxes	30,000	30,000	44,061	14,061
Total Taxes	<u>\$9,791,867</u>	<u>\$9,791,867</u>	<u>\$10,458,361</u>	<u>\$666,494</u>
Licenses and Permits	\$295,000	\$295,000	\$109,758	(\$185,242)
Intergovernmental	8,625,326	8,625,326	7,671,940	(953,386)
Charges for Services	1,412,457	1,412,457	3,758,137	2,345,680
Interest Earnings	186,500	186,500	350,035	163,535
Other Revenues	4,350	4,350	50,748	46,398
Total Revenues	<u>\$20,315,500</u>	<u>\$20,315,500</u>	<u>\$22,398,979</u>	<u>\$2,083,479</u>
Expenditures				
General Governmental Services	\$112,556	\$112,556	\$226,672	(\$114,116)
Transportation	22,265,402	22,265,402	18,074,233	4,191,169
Capital Outlay	1,023,675	1,023,675	36,654	987,021
Total Expenditures	<u>\$23,401,633</u>	<u>\$23,401,633</u>	<u>\$18,337,559</u>	<u>\$5,064,074</u>
Excess (Deficit) Revenues Over Expenditures	<u>(\$3,086,133)</u>	<u>(\$3,086,133)</u>	<u>\$4,061,420</u>	<u>\$7,147,553</u>
Other Financing Sources (Uses)				
Operating Transfers Out	(\$400,360)	(\$400,360)	(\$417,541)	(17,181)
Total Other Financing Source (Uses)	<u>(\$400,360)</u>	<u>(\$400,360)</u>	<u>(\$417,541)</u>	<u>(\$17,181)</u>
Net Change in Fund Balance	(\$3,486,493)	(\$3,486,493)	\$3,643,879	\$7,130,372
Fund Balance-January 1	8,828,062	8,828,062	8,828,062	-
Prior Period Adjustment			(215,876)	(215,876)
Fund Balance as of Jan 1 restated			8,612,186	
Fund Balance-December 31	<u>\$5,341,569</u>	<u>\$5,341,569</u>	<u>\$12,256,065</u>	

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON

Statement of Net Assets

Proprietary Funds

December 31, 2007

	Business-Type Activities-Enterprise Funds			Governmental
	Solid Waste	Drainage Utility	Total	Internal Service Funds
ASSETS				
<u>Current Assets</u>				
Cash/Cash Equivalents	\$3,504,870	\$2,252,344	\$5,757,214	\$5,097,426
Investments	0	300,000	300,000	3,756,125
Accounts Receivable	537,560	23,221	560,781	4,163
Due From Other Funds	10,807	0	10,807	2,201,172
Due from Other Governmental Units	168,625	5,847	174,472	17,300
Inventories/Prepayments	29,211	6,679	35,890	5,057,729
Total Current Assets	\$4,251,073	\$2,588,091	\$6,839,164	\$16,133,915
<u>Noncurrent Assets</u>				
<u>Capital Assets</u>				
Land	\$448,129	\$191,181	\$639,310	\$0
Buildings	1,825,299	0	1,825,299	180,888
Improvements Other Than Buildings	112,935	3,977,849	4,090,784	0
Machinery and Equipment	617,777	5,969	623,746	16,099,182
Less Accumulated Depreciation	(2,338,066)	(696,711)	(3,034,777)	(8,972,616)
Construction In Progress	0	751,347	751,347	0
Unamortized Issuance Costs	24,290	0	24,290	0
Total Noncurrent Assets	\$690,362	\$4,229,635	\$4,919,997	\$7,307,454
Total Assets	\$4,941,435	\$6,817,726	\$11,759,161	\$23,441,369
LIABILITIES AND FUND EQUITY				
<u>Current Liabilities</u>				
Accounts/Vouchers Payable	\$446,850	\$60,102	\$506,952	\$1,981,387
Due to other Funds	576,060	171,593	747,653	1,540,527
Interest Payable	13,673	0	13,673	0
Accrued Wages Payable	46,557	14,897	61,454	99,722
Accrued Employee Benefits	18,495	5,618	24,113	37,219
Accrued Taxes Payable	5,853	0	5,853	0
Bonds Payable	710,000	0	710,000	0
Compensated Absences	56,622	12,309	68,931	211,540
Total Current Liabilities	\$1,874,110	\$264,519	\$2,138,629	\$3,870,395
<u>Noncurrent Liabilities</u>				
Post Closure Land Fill Costs	\$3,649,650	\$0	\$3,649,650	\$0
Bonds Payable	3,842,777	0	3,842,777	0
Total Noncurrent Liabilities	7,492,427	0	7,492,427	0
Total Liabilities	\$9,366,537	\$264,519	\$9,631,056	\$3,870,395
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	(\$3,862,415)	\$4,229,635	\$367,220	\$7,307,454
Unrestricted	(562,687)	2,323,572	1,760,885	12,263,520
Total Net Assets	(\$4,425,102)	\$6,553,207	\$2,128,105	\$19,570,974

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, 2007

	Business - Type Activities - Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Services
<u>Operating Revenues</u>				
Charges for Services	\$9,230,100	\$1,028,099	\$10,258,199	\$19,542,429
Other Operating Revenue	0	0	0	235,439
Total Operating Revenues	<u>\$9,230,100</u>	<u>\$1,028,099</u>	<u>\$10,258,199</u>	<u>\$19,777,868</u>
<u>Operating Expenditures</u>				
Personal Services	\$1,517,537	\$341,445	\$1,858,982	\$3,124,534
Contractual services	5,425,819	0	5,425,819	3,543,182
Other Supplies and Expenses	1,580,940	325,713	1,906,653	4,424,744
Depreciation	35,522	120,428	155,950	1,160,365
Payment to Claimants	0	0	0	6,726,163
Total Operating Expenditures	<u>\$8,559,818</u>	<u>\$787,586</u>	<u>\$9,347,404</u>	<u>\$18,978,988</u>
Operating Income (Loss)	<u>\$670,283</u>	<u>\$240,513</u>	<u>\$910,795</u>	<u>\$798,880</u>
<u>Non-Operating Revenue (Expenses)</u>				
Intergovernmental	\$198,062	\$5,847	\$203,909	(\$8,870)
Interest Revenue	154,045	112,796	266,841	235,509
Miscellaneous Revenue	1,753	0	1,753	0
Gain (Loss) on Disposition of Capital Asset	0	0	0	(737)
Interest Expense	(215,682)	0	(215,682)	0
Miscellaneous Expense	0	0	0	(58,953)
Total Non-Operating Revenue (Expenses)	<u>\$138,178</u>	<u>\$118,643</u>	<u>\$256,821</u>	<u>\$166,949</u>
Income (Loss) before Contributions and Transfers	\$808,461	\$359,156	\$1,167,616	\$965,829
Capital Contributions	0	0	0	0
Transfers Out	0	(131,923)	(131,923)	0
Change in Net Assets	<u>\$808,461</u>	<u>\$227,233</u>	<u>\$1,035,693</u>	<u>\$965,829</u>
Net Assets as of January 1	(1,583,913)	6,325,975	4,742,062	18,605,145
Prior Period Adjustment	(3,649,650)		(3,649,650)	
Net Asset January 1 - adjusted	<u>(5,233,563)</u>	<u>6,325,975</u>	<u>1,092,412</u>	<u>18,605,145</u>
Net Assets as of December 31	<u><u>(\$4,425,102)</u></u>	<u><u>\$6,553,208</u></u>	<u><u>\$2,128,105</u></u>	<u><u>\$19,570,974</u></u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year December 31, 2007

	Business - Type Activities - Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Services
Cash Flows From Operating Activities:				
Receipts from Customers	\$9,264,959	\$1,040,571	\$10,305,530	\$1,346,338
Receipts from Interfund Services Provided	0	0	0	16,985,657
Miscellaneous Receipts	0	0	0	1,359,607
Payments to Employees	(1,507,257)	(326,463)	(1,833,720)	(3,019,343)
Payments to Suppliers	(6,214,164)	(209,083)	(6,423,247)	(13,748,420)
Payments for Interfund Services Used	(919,610)	(219,016)	(1,138,626)	767,481
Miscellaneous Payments	1,753	0	1,753	(58,954)
Net cash provided (used) by operating activities	<u>\$625,682</u>	<u>\$286,009</u>	<u>\$911,690</u>	<u>\$3,632,366</u>
Cash Flows From Noncapital Financing Activities:				
Operating Grants Received	\$130,469	\$0	\$130,469	\$0
Transfers to Other Funds	0	(131,923)	(131,923)	0
Net cash provided (used) by noncapital financing activities	<u>\$130,469</u>	<u>(\$131,923)</u>	<u>(\$1,454)</u>	<u>\$0</u>
Cash Flows From Capital And Related Financing Activities				
Purchases of capital assets	\$1,207	(\$235,576)	(\$234,369)	(1,399,438)
Proceeds from sale of capital assets	0	0	0	69,797
Principal Paid on Capital Debt	(810,000)	0	(810,000)	0
Interest Paid on Capital Debt	(184,350)	0	(184,350)	0
Net cash provided (used) by capital and related financing activities	<u>(\$993,143)</u>	<u>(\$235,576)</u>	<u>(\$1,228,719)</u>	<u>(\$1,329,641)</u>
Cash Flows From Investing Activities:				
Purchase of Investments	\$0	(\$300,000)	(\$300,000)	\$0
Interest Earnings	154,045	112,796	266,842	235,510
Net Cash Provided by Investing Activities	<u>\$154,045</u>	<u>(\$187,204)</u>	<u>(\$33,158)</u>	<u>\$0</u>
Net Increase in Cash & Cash Equivalents	(\$82,947)	(\$268,694)	(\$351,641)	\$2,302,725
Balances as of January 1	3,587,817	2,521,038	6,108,855	6,315,316
Balances as of December 31	<u>\$3,504,870</u>	<u>\$2,252,344</u>	<u>\$5,757,214</u>	<u>\$8,618,041</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year December 31, 2007

	<u>Business - Type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Solid Waste</u>	<u>Drainage Utility</u>	<u>Total</u>	<u>Internal Services</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Operating Income/(Loss)	<u>\$670,283</u>	<u>\$240,513</u>	<u>\$910,796</u>	<u>\$798,880</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Loss (gain) on asset disposal				0
Depreciation Expense	\$35,522	\$120,428	\$155,950	\$1,160,366
Miscellaneous Receipts	1,753	0	1,753	(58,954)
Changes in assets and liabilities:				
Receivables, net	44,534	803	45,337	1,197,319
Prepayments	(3,589)	(2,988)	(6,577)	1,508
Inventories	0	0	0	83,643
Accounts and other payables	<u>(122,822)</u>	<u>(72,747)</u>	<u>(195,569)</u>	<u>449,604</u>
Net Cash Provided by Operating Activities	<u><u>\$625,681</u></u>	<u><u>\$286,009</u></u>	<u><u>\$911,690</u></u>	<u><u>\$3,632,366</u></u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31,2007

ASSETS	Agency Funds
Cash	\$24,030,725
Investments	182,817,765
Taxes receivable	2,891,837
TOTAL ASSETS	<u>\$209,740,327</u>
LIABILITIES	
Warrants payable	\$11,600,266
Custodial accounts	198,140,061
TOTAL LIABILITIES	<u>\$209,740,327</u>
NET ASSETS	<u>\$0</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Notes to the Financial Statements
For the Year Ended December 31, 2007

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, 2007, the Treasurer was holding \$58,036,866 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 unless an employee has at least five years of service and 480 hours of accrued sick leave banked. Retirees may receive cash payment for up to 240 hours, and a non-retiree payment for up to 60 hours of accumulated sick leave if requested.

7. Long-Term Obligations — See Note V.

A prior period adjustment of \$850,000 was made to the beginning balance of the Revolving Fund and Other Loans. Proceeds were received in prior years on this 0 interest, 5 year deferred payment loan.

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	\$2,676,261
Interest Receivable	<u>237,706</u>
Net Adjustment to Increase Total Governmental Funds to Arrive at Net Assets Governmental Activities	<u><u>\$2,913,967</u></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	\$16,355,000
Minus: Issuance Discount/Premium	29,573
Revolving Fund Debt	4,124,968
Compensated Absences	<u>2,172,557</u>
Net Adjustment to Reduce - Total Governmental Funds to Arrive at Net Assets - Governmental Activities	<u><u>\$22,682,098</u></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	\$6,498,413
Depreciation Expense	(17,136,304)
Disposition of Capital Assets (Net Book Value)	<u>(180,386)</u>
Net Adjustment to Decrease Net Changes in Fund Balance - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u><u>(\$10,818,277)</u></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 debit 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 Refunding Debt	(\$6,115,000)
Issuance of Revolving Fund Debt	(550,242)
Discount/Premium	(49,963)
Principal Payments:	
General Obligation Debt to Escrow Agent	5,735,000
General Obligation Debt	810,000
Revolving and Other Fund Debt	150,427
Unamortized Discount adjustment	(43,965)
Interest and Issue Costs Debt Refunding	<u>397,024</u>
Net Adjustment to Increase Net Changes in Fund Balances Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$333,281</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, 2007:

The **Communication System Fund** deficit was \$42,636 at December 31, 2007. A correction of an overpayment to Skagit 911 will resolve the deficit over the next year.

The **Water Quality Fund** deficit was \$133,524 at December 31, 2007. State of Washington Department of Ecology revolving loan proceeds will resolve the deficit over the next year.

The **Hansen Creek Sub-Flood Control Zone Fund** deficit was \$70,921 at December 31, 2007. Operating assessments being collected from property owners in the Zone will resolve the deficit over the next year.

The **Lake Management District No. 1 Fund** deficit was \$33,967 at December 31, 2007. Operating assessments being collected from property owners in the District will resolve this deficit over the next year.

The **Lake Management District No. 2 Fund** deficit was \$10,740 at December 31, 2007. Operating assessments being collected from property owners in the District will resolve this deficit over the next three years.

The **Lake Management District No. 4 Fund** deficit was \$90,783 at December 31, 2007. This fund is new in 2007, so operating assessments being collected from property owners in the District will resolve this deficit over the next three years.

The **Solid Waste Fund** deficit is \$4,425,102 at December 31, 2007. \$3,649,650 is the result of a prior period adjustment for Land Fill Post Closure Costs described in Note IX. These costs will be amortized through 2024. \$775,452 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 \$670,283 for the fiscal year ended December 31, 2007

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 \$77,809,266 and the bank balance was \$8,259,850 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, 2007, 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	\$72,426,138	\$40,213,670	\$32,105,325	\$0	\$107,143
Money Market	5,383,128	5,383,128	0	0	0
Registered Warrants	847,141	847,141	0	0	0
Commercial Paper	499,286	499,286	0	0	0
Treasury Bills	493,047	493,047	0	0	0
Treasury Notes	1,415,188	603,407	504,375	307,406	0
Municipal Notes	1,808,724	498,710	455,355	854,659	0
U. S. Agencies	32,806,857	16,194,949	4,646,108	8,159,140	3,806,661
State Treasurer Pool	150,178,688	150,178,688	0	0	0
Totals	<u>\$265,858,198</u>	<u>\$214,912,026</u>	<u>\$37,711,163</u>	<u>\$9,321,205</u>	<u>\$3,913,804</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, 2007, the County's investments in U.S. Agencies (\$23,912,491) was rated AAA by Standard & Poor's.. The County's investment in the Federal National Mortgage Association (\$8,577,590) was rated AAA by Standard & Poor's, Fitch Ratings and Moody's Investor Services. The County's Investment in Commercial Paper was rated A1 by Standard & Poor's and P1 by Moody's Investors Services. The investments in Municipal Notes are rated as follows: Orange Township NJ Series D (\$135,286) rated AAA by Standard & Poor's and Aaa by Moody's Investors Services. Oregon State Taxable (\$490,005) rated AA3 by Moody's Investors Services and A1 by Fitch Ratings. Everett Public Facilities District (\$100,000) rated A by Standard & Poor's. Mercer Co. NF Taxable (\$217,668) and Lynwood PFD (\$231,743) rated AAA by Standard & Poor's, Aaa by Moody's Investor Services and AAA by Fitch Ratings. Glenview, Ill Series B (\$262,510) rated Aaa by Moody's Investors Services. Hoboken NJ Series B (\$97,427) and Green Bay Wisc, Series C (\$151,519) rated AAA by Standard & Poor's and Aaa by Moody's Investors Services. Multnomah Co. Oregon (\$104,208) rated Aaa by Moody's Investor Services and AAA by Fitch Ratings. The County's investment in Registered Warrants is 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 – 7.1%.

Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

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. 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. 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 2007:

	LEVY IN DOLLARS ASSESSED PER THOUSAND	TOTAL VALUE	LEVY
2007			
County	\$1.5706	\$14,004,423,861	\$21,991,564
Roads	1.6227	6,870,934,241	11,149,465
Conservation Futures	.0469	14,004,423,861	656,807
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

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.

B. 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:

	<u>Taxes</u>	<u>Accounts</u>	<u>Due from Other Governments</u>	<u>Interest & Penalties</u>	<u>Total</u>
General Fund	\$621,820	\$1,519,411	\$692,794	\$301,246	\$3,135,271
County Roads	266,073	597,895	1,176,780	0	2,040,748
NonMajor Governmental	151,532	6,822	1,506,967	0	1,665,321
Solid Waste	0	537,560	168,625	0	706,185
Drainage Utility	21,664	1,556	5,847	0	29,067
Internal Service	0	4,163	17,300	0	21,463
Agency	<u>2,891,837</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,891,837</u>
Total Receivables	<u>\$3,952,926</u>	<u>\$2,667,407</u>	<u>\$3,568,312</u>	<u>\$301,246</u>	<u>\$10,489,891</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:

	<u>Unavailable</u>	<u>Unearned</u>
Property Taxes Receivable (General Fund)	\$621,820	
Property Taxes Receivable (Road Fund)	266,073	
Property Taxes Receivable (Other Governmental Funds)	151,532	
Revenue earned but not yet available	1,518,951	
Grants received prior to meeting all eligibility requirements	0	\$107,884
Contributions received for future services	<u>0</u>	<u>10,000</u>
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$2,558,376</u>	<u>\$117,884</u>

C. Inter-fund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2007 is as follows:

Due To/From other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	County Roads	\$872,181
	Non-Major Gov't Fund	207,973
	Solid Waste Fund	99,266
	Drainage Utility	18,612
	Internal Services Funds	140,582
		<u>\$1,338,614</u>
County Roads	General Fund	\$18,926
	Facility Improvement Fund	421
	Non-Major Gov't Fund	161,760
	Solid Waste Fund	434,553
	Drainage Utility Fund	87,430
	Internal Services Funds	202,888
		<u>\$905,978</u>
Non-Major Gov't Fund	General Fund	\$120,471
	County Roads	151,651
	Non-Major Gov't Fund	183,909
	Solid Waste Fund	25,303
	Drainage Utility Fund	65,551
		<u>\$546,885</u>
Solid Waste Fund	General Fund	\$283
	County Roads	9,617
	Non-Major Gov't Fund	907
		<u>\$10,807</u>
Internal Services Funds	General Fund	\$583,079
	County Roads	392,094
	Non-Major Gov't Fund	12,005
	Solid Waste Fund	16,938
	Internal Services Funds	1,197,057
		<u>\$2,201,173</u>
	Total	<u><u>\$5,003,457</u></u>

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

Interfund loans receivable/payable:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/07</u>	<u>New Loans</u>	<u>Repay</u>	<u>Balance 12/31/07</u>
Clean Water Program	General Fund	\$262,500	\$379,000	\$362,500	\$279,000
Hansen Creek Sub Flood	General Fund	71,000	15,000	11,000	75,000
Lake Management No. 1	General Fund	57,000	35,000	92,000	0
Lake Management No. 2	General Fund	26,000	0	11,000	15,000
Lake Management No. 3	General Fund	11,000	11,000	22,000	0
Lake Management No. 4	General Fund	0	90,000	0	90,000
	TOTAL	<u>\$427,500</u>	<u>\$530,000</u>	<u>\$498,500</u>	<u>\$459,000</u>

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			Total
	General Fund	Facility Improvement	Non-Major Gov	
General Fund	\$0	\$0	\$4,537,596	\$4,537,596
County Roads	0	0	417,541	417,541
Non-Major Gov	39,926	764,911	2,712,369	3,517,206
Drainage Utility	0	0	131,923	131,923
Total	\$39,926	\$764,911	\$7,799,429	\$8,604,266

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

D. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated				
Land	\$17,308,301	\$102,595	\$0	\$17,410,896
Development rights	7,087,609	1,018,083	0	8,105,692
	<u>\$24,395,910</u>	<u>\$1,120,678</u>	<u>\$0</u>	<u>\$25,516,588</u>
Capital assets, being depreciated				
Buildings	\$41,227,567	\$1,725,011	\$0	\$42,952,578
Improvements	6,268,349	730,006	51,707	6,946,648
Machinery and equipment	19,142,447	1,738,945	91,754	20,789,638
Infrastructure	464,177,314	2,507,401	130,179	466,554,536
Total capital assets being depreciated	<u>\$530,815,677</u>	<u>\$6,701,363</u>	<u>\$273,640</u>	<u>\$537,243,400</u>
Less accumulated depreciation for:				
Buildings	\$15,502,698	\$962,363	\$0	\$16,465,061
Improvements	3,085,698	303,686	4,240	3,385,144
Machinery and equipment	11,621,352	1,524,837	85,417	13,060,772
Infrastructure	148,673,842	15,505,781	0	164,179,623
Total accumulated depreciation	<u>\$178,883,590</u>	<u>\$18,296,667</u>	<u>\$89,657</u>	<u>\$197,090,600</u>
Total capital assets, being depreciated net	<u>\$351,932,087</u>	<u>\$(11,595,304)</u>	<u>\$(183,983)</u>	<u>\$340,152,800</u>
Governmental activities capital assets net	<u>\$376,327,997</u>	<u>\$(10,474,626)</u>	<u>\$(183,983)</u>	<u>\$365,669,388</u>

Depreciation expenses were charged to functions as follows:

General Governmental Services	\$1,128,496
Public Safety	220,162
Physical Environment	3,744
Transportation	15,609,670
Economic Environment	21,921
Mental and Physical Health	31,292
Culture and Recreation	121,019
	<u>1,160,363</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

Total governmental activities depreciation expense \$18,296,667

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities				
Capital assets, not being depreciated				
Land	\$639,310	\$0	\$0	\$639,310
Construction in progress	846,265	203,875	298,793	751,347
Total capital assets, not being depreciated	\$1,485,575	\$203,875	\$298,793	\$1,390,657
Capital assets, being depreciated				
Buildings	\$1,825,299	\$0	\$0	\$1,825,299
Improvements	3,761,497	329,287	0	4,090,784
Machinery and equipment	623,746	0	0	623,746
Total capital assets being depreciated	\$6,210,542	\$329,287	\$0	\$6,539,829
Less accumulated depreciation for:				
Buildings	\$1,741,123	\$20,289	0	\$1,761,412
Improvements	608,153	125,594	0	733,747
Machinery and equipment	529,550	10,068	0	539,618
Total accumulated depreciation	\$2,878,826	\$155,951	\$0	\$3,034,777
Total capital assets, being depreciated net	\$3,331,716	\$173,336	\$0	\$3,505,052
Business type activities, capital assets net	\$4,817,291	\$377,211	\$298,793	\$4,895,709

Depreciation expenses were charged to functions as follows:

Solid Waste	\$35,522
Drainage Utility	120,428
Total Business type activities depreciation expense	<u>\$155,950</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, 2007.

**SCHEDULE OF LEGAL LIMIT OF DEBT MARGIN
FOR THE YEAR ENDED DECEMBER 31, 2007**

Purpose of Indebtedness	Remaining Capacity
General Government (no vote required)	\$230,621,033
General Government (vote required)-2.5%	\$161,666,825

A. General Obligation Bonds

Amount
Outstanding

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 \$60,000 and interest payments of \$23,078 were made in 2007.

\$430,000

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 December 1, 2022. The Bonds sold at interest rates yielding 4.80% in 2001 to 5.625% in 2002. The Bonds maturing on or after December 1, 2010 were subject to redemption at the County's option at any time on or after December 1, 2009. The non-callable balance remaining was \$870,000. The Bonds are serviced through the County's Debt Service Fund and payment will be made by the Distressed County Public Facilities Fund. Principal payments are made annually on December 1 and interest payments are made on June 1 and December 1. Principal payments of \$275,000 and interest payments of \$43,500 were made in 2007.

\$595,000

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 \$68,662 were made in 2007. \$1,800,000

- 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 \$575,000 and interest payments of \$13,225 were made in 2007. \$0

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 \$4,500 were made in 2007. \$115,000

- 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 \$235,000 and interest payments of \$171,125 were made in 2007. \$4,670,000

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. Principal payments of \$230,000 and interest payments of \$326,427 were made in 2007. \$7,380,000

In 2007 Limited Tax General Obligation Refunding Bonds in the amount of \$6,115,000 were issued for the purpose of refunding the callable maturities of the 2000 LTGO bonds scheduled to mature on December 10, 2010 through 2022. The bonds were issued to provide funds for grants to County communities for construction of economic development public facility projects. The refunding bond will be serviced through the County's Debt Service Fund and payment will be made by the Distressed County Public Facilities Fund. Principal payments are made on December 1 and interest payments are made on June 1 and December 1. The interest rate ranges from 3.875% in 2007 to 4.00% in 2022. Principal payments of \$80,000 and interest payments of \$198,173 were made in 2007.

\$6,035,000

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
2008	830,000	638,305	710,000	164,075
2009	870,000	604,628	735,000	142,775
2010	910,000	568,603	765,000	117,050
2011	945,000	533,834	790,000	90,275
2012	975,000	497,371	820,000	62,625
2013-2017	5,030,000	1,921,933	850,000	31,875
2018-2022	4,775,000	977,265	0	0
2023-2026	2,020,000	205,267	0	0
Totals	\$16,355,000	\$5,947,206	\$4,670,000	\$608,675

B. Refunded Debt

The County issued \$6,115,000 of general obligation refunding bonds to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future callable portions of the 2000 Limited Tax General Obligation Refunding Bonds. As a result the refunded bonds are considered to be defeased and the liability has been removed from the Government Type activities column of the Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments in 2007 and over the next 15 years by \$553,081. The issue resulted in an economic gain from a present value perspective of \$409,908.

C. Revolving Fund and Other Loans

The revolving 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. The other loan was acquired to partially finance the construction of a road and certain utilities in an urban growth area. Repayment of this loan will be made from proceeds of voluntary assessments against the properties benefiting from these improvements.

	<u>Amount Outstanding</u>
The County entered into a 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 2007. The loan is interest free.	\$204,334
The County entered into an additional 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 \$73,044 and interest payments of \$20,775 were made in 2007.	\$1,330,152
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 \$2,948 were made in 2007.	\$47,162
The County entered into a loan agreement in 2001 with the State of Washington Community Economic Revitalization Board. The project is to improve infrastructure in the Bayview Ridge Urban Growth Area. The County has been obligated in the amount of \$850,000. The loan is interest free and the term is 20 years. Payment is deferred for 5 years. The first principal payment of \$56,667 was made in 2007.	\$793,333
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 revised loan amount is \$1,545,404. The interest rate is 1.50% and the term is 20 years. The loan closed in 2007. No payments were made in 2007 however; the revised loan amount includes \$48,363 of accrued interest payments to begin in 2008.	\$1,545,404
The County entered into a loan agreement in 2007 with the State of Washington Department of Ecology. The project title is Skagit County Local Loan Fund. The total amount available is \$2,000,000. The County has been obligated in 2007 in the amount of \$204,584. The projected closing date is October 2011 with payments to begin in 2012. The interest rate is 2.6% and the term is 20 years.	\$204,584

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

Year Ending December 31	Principal	Interest
2008	222,091	40,740
2009	222,341	40,490
2010	224,527	38,304
2011	226,746	36,085
2012	137,500	24,044
2013-2017	1,216,714	163,674
2018-2022	1,182,646	96,655
2023-2027	642,686	29,415
2028-2031	49,718	3,273
Totals	\$4,124,969	\$472,680

D. Changes in Long-Term Liabilities

During the year ended December 31, 2007, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>New Issue</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$16,785,000	\$6,115,000	\$6,545,000	\$16,355,000	\$830,000
Less Deferred Amount For Issuance					
Discounts/Premiums	(20,390)	21,740	(28,223)	29,573	463
Total Bonds Payable	\$16,764,610	\$6,136,740	\$6,516,777	\$16,384,573	\$830,463
Revolving Fund and Other Loans	3,849,826	425,569	150,427	4,124,968	222,091
Claims and Judgments Payable	281,916	446,936	301,977	426,875	0
Compensated Absences	1,784,299	2,574,805	1,975,007	2,384,097	2,384,097
Long term Liabilities	<u>\$22,680,651</u>	<u>\$9,584,050</u>	<u>\$8,944,188</u>	<u>\$23,320,513</u>	<u>\$3,436,651</u>
Business –Type Activities					
Bonds Payable					
General Obligation Bonds	\$5,480,000	\$0	\$810,000	\$4,670,000	\$710,000
Less Deferred Amounts					
For Issuance Discounts/ Premiums	28,682	0	7,796	20,886	3,481
On refunding	(168,198)	0	(30,088)	(138,110)	(23,018)
Total Bonds Payable	\$5,340,484	\$0	\$787,708	\$4,552,776	\$690,463
Compensated Absences	54,070	72,778	57,917	68,931	68,931
Long term Liabilities	<u>\$5,394,554</u>	<u>\$72,778</u>	<u>\$845,625</u>	<u>\$4,621,707</u>	<u>\$759,394</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 defined benefit plan with a defined contribution component.

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 participating 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 members 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 two 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. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, 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. The benefit is also actuarially reduced 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 three 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. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service were earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. 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. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM). Current justices or judges in PERS Plan 1 and 2 may make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average financial compensation. Judges in PERS Plan 3 can elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who choose to participate in JBM will accrue service credit at the higher multiplier beginning with the date of their election, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who do not choose to participate will: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

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

Justices and judges who are newly elected or appointed to judicial service will: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to but not yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-vested	49,812
Total	250,838

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution 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. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%	6.13%	6.13%**
Employee	6.00%	4.15%	***

*The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

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

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	6.13%	6.13%	6.13%**
Employee	12.26%	10.38%	7.50%***

*The employer rates include the employer administrative expense fee currently set at 0.16%.

**Plan 3 defined benefit portion only.

***Minimum rate.

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
2007	\$144,028	\$1,345,454	\$304,255
2006	\$86,701	\$700,371	\$148,519
2005	\$54,801	\$416,095	\$86,342

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 benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays 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 three percent annually.

There are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	8,951
Terminated Plan members Entitled to but not yet Receiving Benefits	602
Active Plan Members Vested	12,711
Active Plan Members Non-vested	3,603
Total	25,867

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 LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature by means of a special funding arrangement appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The 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, 2007, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%
Employee	0.00%	8.64%

*The employer rates include the employer administrative expense fee currently set at 0.16%

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 1 Plan 1	LEOFF Plan 2
2007	\$100	\$189,021
2006	\$107	\$171,983
2005	\$99	\$133,389

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
2007	\$85,209
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 participated in the Pool, while twenty eight counties remain as present members.

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 third-party 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 third-party liability reinsurance that is subject to a per-occurrence self-insured retention of the greater of \$100,000 or the member-selected deductible, whichever is greater and "following form" excess insurance from unrelated underwriters. 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 reassessments receivable balance as of December 31, 2007 is \$260,770. 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. Participating 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. The reserve includes reserves for open claims plus an estimate of incurred but not reported (IBNR) claims. As estimates, these values are subject to inherent variability and may or may not become payable over the course of several years. Claim settlements have not exceeded insurance coverage for each of the past three fiscal years.

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

GENERAL/AUTO LIABILITY AND PROPERTY CLAIMS LIABILITY

Fiscal Year	Beginning Balance	Current Year Claims & Changes In Estimates	Claim Payments	Balance at End of Year
2005	\$342,396	\$530,680	\$737,090	\$135,986
2006	\$135,986	\$329,500	\$183,570	\$281,916
2007	\$281,916	\$446,936	\$301,977	\$426,875

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 2005 was 1.4249, in 2006 the modifier was 1.3977, and in 2007 the modifier is 1.1282. 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 2008 will be 1.1825.

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, 2007 are \$377,316. There are no significant claims outstanding at December 31, 2007.

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 \$78,622.

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

	Beginning Balance	Current Year Charges & Changes In Estimates	Claim Payments	Balance At Year End
2005	\$113,734	\$691,497	\$700,201	\$105,030
2006	\$105,030	\$687,228	\$688,920	\$103,338
2007	\$103,338	\$733,387	\$726,892	\$109,833

In January 2003, the County began self-insuring for medical insurance claims for eligible County employees and eliminated its medical indemnity plan. The claims processing is administered by Trusteed Plans. The County's health benefits broker, Wells Fargo, 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 \$215,148 in 2007 and administrative fees and charges totaled \$346,994.

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>
2005	\$919,471	\$4,823,714	\$4,752,981	\$990,204
2006	\$990,204	\$5,756,018	\$5,583,080	\$1,163,142
2007	\$1,163,142	\$5,718,129	\$5,694,845	\$1,186,426

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.

As discussed in Note V, the County is contingently liable for repayment of refunded debt.

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

On March 24, 2003, the Board of County Commissioners of Skagit County entered into a contingent loan agreement with the Skagit Regional Public Facilities District, 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, 2007, there have been no loans made by the County to the Public Facilities District.

IX. LAND FILL POST CLOSURE COSTS

State and federal laws and regulations require Skagit County to perform landfill maintenance and monitoring activities for a minimum of twenty to thirty years after closure of municipal landfills. An expense provision and related liability for these activities was not recognized in the Solid Waste Enterprise Fund before the landfills were closed; costs have been expensed as they were incurred. GASB Statement 18 requires recognition of the costs before closure, therefore a prior period adjustment has been made at December 31, 2007 to comply with this reporting requirement.

Gibraltar and Salk-Faber landfills closed in 1989. Each is 2.2 acres, covered with several feet of native soil and contoured for proper drainage. Groundwater and landfill gas is monitored quarterly in existing monitoring net work and there is ongoing site maintenance. There is a minimum of two years of maintenance and monitoring activity remaining, at an estimated cost of \$39,600.

Inman Landfill closed in 1994. The entire site was covered with an engineered cap, and installation of a site drainage system, landfill gas extraction system, and a landfill gas and monitoring well system. Groundwater and landfill gas is monitored quarterly in existing monitoring network. This monitoring must continue until at least 2024. The site contains an active landfill gas extraction system and a portion of the landfill has a leachate collection system. The estimated liability for post closure care costs is \$3,610,050 on December 31, 2007.

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

X. PRIOR PERIOD ADJUSTMENTS

The Emergency Medical Services Commission, a Discretely Presented Component Unit, reports a prior period adjustment of (\$456,990). This represents over accruals of tax revenues receivable during the years 2003 to 2005.

The County Road Fund, a major fund, reports a prior period adjustment of (\$215,876). This is due to the reversal of an accrual made in 2003 for CRAB grant revenues, based on grant related expenditures made during that year. The reimbursement request was not submitted prior to the expiration of the grant.

The General Fund received \$107,397 of Department of Ecology Grant revenues in 2005 which should have been recorded in the Water Quality Fund, a non-major special revenue fund. Both funds are reporting a prior period adjustment to correct the error.

The General Fund received CERB loan proceeds in 2001. The first payment on this 0 interest loan was payable in 2007. The Statement of Net Assets is reporting a prior period adjustment of (\$850,000) to include this obligation which had been omitted in prior years.

The Solid Waste Fund, an enterprise fund, reports a prior period adjustment of (\$3,649,650) for post closure land fill care costs. This expense should have been accrued at the time the land fills closed.

XI. FUNDS

Fund 144, Lake Management District #4, a Special Revenue Fund, was created in March 2007 per Chapter 36.61 RCW and Skagit County Ordinance 020070001. Income for this fund is derived from operating assessments and expended exclusively for the purposes of lake improvement and maintenance activities on Clear Lake and Beaver Lake.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<u>NORTHWEST REGIONAL COUNCIL</u>						
NUTRITION INCENTIVE PROGRAM	10.570	08009-NUTR(03)	53,023	0	53,023	
NUTRITION INCENTIVE PROGRAM	10.570	08009-NUTR(03)	4,746	0	4,746	
		SUB-TOTAL:	\$57,769	\$0	\$57,769	
<u>SUPERINTENDENT OF PUBLIC INSTRUCTION</u>						
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	20070702	320	0	320	
		SUB-TOTAL:	\$320	\$0	\$320	
<u>US DEPARTMENT OF AGRICULTURE</u>						
CONSERVATION RESERVE PROGRAM	10.069	CRP 2003 0054	0	360	360	
CONSERVATION RESERVE PROGRAM	10.069	CRP 2003 055	0	491	491	
CONSERVATION RESERVE PROGRAM	10.069	CRP 2005 072	0	6,326	6,326	
SCHOOLS AND ROADS GRANTS TO STATES	10.665	USC TITLE 16, SEC 500	0	576,441	576,441	
		SUB-TOTAL:	\$0	\$583,618	\$583,618	
<u>US DEPARTMENT OF AGRICULTURE-NRCS</u>						
FARM AND RANCH LANDS PROTECTION PROGRAM	10.913	C20040427	0	171,950	171,950	
FARM AND RANCH LANDS PROTECTION PROGRAM	10.913	C20050390	0	315,050	315,050	2
		SUB-TOTAL:	\$0	\$487,000	\$487,000	
<u>WASHINGTON STATE DEPARTMENT OF HEALTH-CONSOLIDATED CONTRACT</u>						

Skagit County, Washington
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<u>WASHINGTON STATE DEPARTMENT OF HEALTH-CONSOLIDATED CONTRACT</u>						
SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN	10.557	C14962 (5)	63,015	0	63,015	4 (b)
SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN	10.557	C14962 (5)	1,304	0	1,304	4 (b)
WIC FARMERS' MARKET NUTRITION PROGRAM (FMNP)	10.572	C14962 (5)	121	0	121	4 (b)
			SUB-TOTAL:	\$0	\$64,440	
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES/SPI-1999</u>						
NATIONAL SCHOOL LUNCH PROGRAM	10.555	YEARLY	22,481	0	22,481	
			SUB-TOTAL:	\$0	\$22,481	
			U.S. DEPARTMENT OF AGRICULTURE TOTAL:	\$1,070,618	\$1,215,628	
<u>U.S. DEPARTMENT OF COMMERCE</u>						
<u>DEPARTMENT OF ECOLOGY (NOAA)</u>						
COASTAL ZONE MANAGEMENT ADMINISTRATION AWARDS	11.419	G0600049	101,359	0	101,359	
			SUB-TOTAL:	\$0	\$101,359	
			U.S. DEPARTMENT OF COMMERCE TOTAL:	\$0	\$101,359	
<u>U.S. DEPARTMENT OF JUSTICE</u>						
<u>DEPARTMENT OF JUSTICE</u>						
GRANTS TO ENCOURAGE ARREST POLICIES & ENFORCEMENT OF PROTECTION ORDERS PROGRAM	16.590	2004-WE-AX-0079	0	206,994	206,994	
STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	16.606	2006-F3272-WA-AP (AWARD #2007-AP-BX-0379)	0	72,928	72,928	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
U.S. DEPARTMENT OF JUSTICE						
DEPARTMENT OF JUSTICE						
STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	16.606	2007-F6823-WA-AP (AWARD #2008-AP-BX-0506)	0	66,046	66,046	
		SUB-TOTAL:	\$0	\$345,968	\$345,968	
DEPARTMENT OF JUSTICE OVW						
VIOLENCE AGAINST WOMEN FORMULA GRANT	16.588	2005-WE-AX-0132	10,849	0	10,849	
GRANTS TO ENCOURAGE ARREST POLICIES & ENFORCEMENT OF PROTECTION ORDERS PROGRAM	16.590	2005-WE-AX-0132	3,939	0	3,939	
		SUB-TOTAL:	\$14,787	\$0	\$14,787	
DEPT OF JUSTICE THROUGH CTED						
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	16.738	M07-62201014	73,864	0	73,864	2
		SUB-TOTAL:	\$73,864	\$0	\$73,864	
OFFICE OF JUSTICE / DSHS						
JUVENILE JUSTICE AND DELINQUENCY PREVENTION- ALLOCATION TO STATES	16.540	I-100-00406	1,690	0	1,690	2
JUVENILE JUSTICE AND DELINQUENCY PREVENTION- ALLOCATION TO STATES	16.540	I-100-00507	3,879	0	3,879	2, 4
		SUB-TOTAL:	\$5,569	\$0	\$5,569	
US DEPARTMENT OF JUSTICE						
VIOLENCE AGAINST WOMEN FORMULA GRANT	16.588	F06-31103-020	12,782	0	12,782	
VIOLENCE AGAINST WOMEN FORMULA GRANT	16.588	F07-31103-030/c20070588	3,478	0	3,478	
BULLETPROOF VEST PARTNERSHIP PROGRAM	16.607	(www.vests.ojp.gov)/FYI 2007	1,900	0	1,900	2
		SUB-TOTAL:	\$18,160	\$0	\$18,160	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF JUSTICE</u>						
<u>US DEPARTMENT OF JUSTICE-OWW</u>						
VIOLENCE AGAINST WOMEN FORMULA GRANT	16.588	F06-31103-021	9,851	0	9,851	2
		SUB-TOTAL:	\$9,851	\$0	\$9,851	
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</u>						
JUVENILE ACCOUNTABILITY BLOCK GRANT	16.523	0663-98417/	6,237	0	6,237	2
JUVENILE ACCOUNTABILITY BLOCK GRANT	16.523	0663-98417/	4,930	0	4,930	2
		SUB-TOTAL:	\$11,167	\$0	\$11,167	
<u>WASHINGTON STATE PATROL</u>						
MARIJUANA ERADICATION	16.000	C071139FED	18,634	0	18,634	
		SUB-TOTAL:	\$18,634	\$0	\$18,634	
U.S. DEPARTMENT OF JUSTICE TOTAL: \$345,968 \$498,001						
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>						
<u>WA ASSOC OF SHERIFFS & POLICE CHIEFS</u>						
STATE AND COMMUNITY HIGHWAY SAFETY	20.600		2,480	0	2,480	
		SUB-TOTAL:	\$2,480	\$0	\$2,480	
<u>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION</u>						
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA3769	404	0	404	2
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA5612	72,662	0	72,662	2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>						
<u>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION</u>						
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6016	11,013	0	11,013	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6104	1,365,534	0	1,365,534	2
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6194	64,083	0	64,083	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6216	194,557	0	194,557	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6320	14,186	0	14,186	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6522	19,270	0	19,270	
			SUB-TOTAL:	\$0	\$1,741,709	
<u>WASHINGTON TRAFFIC SAFETY COMMISSION</u>						
DRIVE HAMMERED, GET NAILED	20.604		293	0	293	
UPPER SKAGIT VALLEY CORRIDOR TRAFFIC SAFETY	20.604		23,497	0	23,497	
			SUB-TOTAL:	\$0	\$23,790	
			U.S. DEPARTMENT OF TRANSPORTATION TOTAL:	\$0	\$1,767,979	
<u>ENVIRONMENTAL PROTECTION AGENCY</u>						
<u>WASHINGTON STATE DEPARTMENT OF HEALTH</u>						
BEACH MONITORING AND NOTIFICATION PROGRAM IMPLEMENTATION GRANTS	66.472	C14962 (5)	2,701	0	2,701	4 (b)
			SUB-TOTAL:	\$0	\$2,701	
<u>WASHINGTON STATE DEPT OF HEALTH</u>						

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>ENVIRONMENTAL PROTECTION AGENCY</u>						
WASHINGTON STATE DEPT OF HEALTH						
CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS	66.468	C14962 (5)	250	0	250	4 (b)
CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS	66.468	C14962 (5)	4,000	0	4,000	4 (b)
		SUB-TOTAL:	\$4,250	\$0	\$4,250	
		ENVIRONMENTAL PROTECTION AGENCY TOTAL:	\$6,951	\$0	\$6,951	
<u>U.S. DEPARTMENT OF EDUCATION</u>						
MOUNT VERNON SCHOOL DISTRICT						
TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	84.013	C20060373/A20070050	43,965	0	43,965	
		SUB-TOTAL:	\$43,965	\$0	\$43,965	
		U.S. DEPARTMENT OF EDUCATION TOTAL:	\$43,965	\$0	\$43,965	
<u>FEDERAL ELECTIONS ASSISTANCE COMMISSION</u>						
WASHINGTON ST SECRETARY OF STATE						
HELP AMERICA VOTE ACT REQUIREMENTS PAYMENTS	90.401	G-2855/C20050162	20,022	0	20,022	
		SUB-TOTAL:	\$20,022	\$0	\$20,022	
		FEDERAL ELECTIONS ASSISTANCE COMMISSION TOTAL:	\$20,022	\$0	\$20,022	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
DHHS						
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES- PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE	93.243	C20060105	43,232	0	43,232	4(a)
		SUB-TOTAL:	\$43,232	\$0	\$43,232	
DOH CONSOLIDATED CONTRACTI						
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (5)	478	0	478	
		SUB-TOTAL:	\$478	\$0	\$478	
DSHS						
BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	93.958	NSMHA SK CTY HUMAN SERV/FBG-07	8,000	0	8,000	
		SUB-TOTAL:	\$8,000	\$0	\$8,000	
DSHS-ARS/EIP GRANT						
PROMOTING SAFE AND STABLE FAMILIES	93.556	0763-12851 (1)	1,636	0	1,636	4 (b)
		SUB-TOTAL:	\$1,636	\$0	\$1,636	
ESD #105-OFFICE OF NATL DRUG CONTROL POLICY						
BLOCK GRANTS FOR PREVENTING AND TREATMENT OF SUBSTANCE ABUSE	93.959	9006000126	28,677	0	28,677	
		SUB-TOTAL:	\$28,677	\$0	\$28,677	
NAT'L ASSOC OF CO AND CITY HEALTH OFFICIALS						
MEDICAL RESERVE CORPS SMALL GRANT PROGRAM	93.008	MRC 07291	11,000	0	11,000	
		SUB-TOTAL:	\$11,000	\$0	\$11,000	
NORTHWEST REGIONAL COUNCIL/OAA						

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<u>NORTHWEST REGIONAL COUNCIL/OAA</u>						
SPECIAL PROGRAMS FOR THE AGING-TITLE III, PART C - NUTRITION SERVICES	93.045	08009-NUTR(03)	163,193	0	163,193	2
		SUB-TOTAL:	\$163,193	\$0	\$163,193	
<u>SKAGIT ISLANDS HEAD START</u>						
HEAD START	93.600	C20080063	100	0	100	
		SUB-TOTAL:	\$100	\$0	\$100	
<u>SNOHOMISH HEALTH DISTRICT</u>						
HIV PREVENTION ACTIVITIES-HEALTH DEPARTMENT BASED	93.940	C20070100	17,175	0	17,175	4 (b)
		SUB-TOTAL:	\$17,175	\$0	\$17,175	
<u>WASHINGTON STATE DEPARTMENT OF HEALTH</u>						
IMMUNIZATION GRANTS	93.268	C14962 (5)	184,176	0	184,176	3
IMMUNIZATION GRANTS	93.268	C14962 (5)	5,453	0	5,453	4 (b)
IMMUNIZATION GRANTS	93.268	C14962 (5)	789	0	789	4 (b)
IMMUNIZATION GRANTS	93.268	C14962 (5)	31,958	0	31,958	4 (b)
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (5)	92,846	0	92,846	4 (b)
CHILDCARE AND DEVELOPMENT BLOCK GRANT	93.575	C14962 (5)	22,044	0	22,044	4 (b)
NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM	93.889	C14962 (5)	10,020	0	10,020	4 (b)
PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT	93.991	C14962 (5)	6,000	0	6,000	4 (b)
MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT TO THE STATE	93.994	C14962 (5)	92,391	0	92,391	4 (b)

Skagit County, Washington
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<u>WASHINGTON STATE DEPARTMENT OF HEALTH</u>						
			\$445,677	\$0	\$445,677	
SUB-TOTAL:						
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</u>						
MEDICAL ASSISTANCE PROGRAM	93.778	0563-75746	77,644	0	77,644	2, 4 (b)
MEDICAL ASSISTANCE PROGRAM	93.778	0763-20690 (1)	590	0	590	4 (b)
			\$78,234	\$0	\$78,234	
SUB-TOTAL:						
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES 2000</u>						
CHILD SUPPORT ENFORCEMENT	93.563	2110-80608	107,157	0	107,157	2, 4(c)
CHILD SUPPORT ENFORCEMENT	93.563	75-1501-0-1-609	440,364	0	440,364	2, 4
CHILD SUPPORT ENFORCEMENT	93.563	75-1501-0-1-609	16,602	0	16,602	
			\$564,123	\$0	\$564,123	
SUB-TOTAL:						
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES 2001</u>						
CHILD SUPPORT ENFORCEMENT	93.563	2110-80608	25,093	0	25,093	
MEDICAL ASSISTANCE PROGRAM	93.778	0663-96672	6,689	0	6,689	4 (b)
MEDICAL ASSISTANCE PROGRAM	93.778	0763-14590	4,500	0	4,500	4 (b)
MEDICAL ASSISTANCE PROGRAM	93.778	0763-21391	8,084	0	8,084	4 (b)
			\$44,366	\$0	\$44,366	
SUB-TOTAL:						
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES-DIVISION OF ALCOHOL</u>						
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	8893-2	62,508	0	62,508	2

Skagit County, Washington
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES-DIVISION OF ALCOHOL</u>						
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	8893-2	65,496	0	65,496	2
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	9514-1/A20070464	10,711	0	10,711	2
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE.	93.959	9514-1/A20070138	71,776	0	71,776	2
		SUB-TOTAL:	\$210,491	\$0	\$210,491	
<u>WASHINGTON STATE DEPT OF HEALTH</u>						
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (5)	48,564	0	48,564	4 (b)
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (5)	19,167	0	19,167	4 (b), 5
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (5)	25,000	0	25,000	4 (b)
		SUB-TOTAL:	\$92,731	\$0	\$92,731	
		U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL:	\$1,709,113	\$0	\$1,709,113	
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</u>						
RETIRED AND SR VOLUNTEER PROGRAM	94.002	05SRPWA001/	64,822	0	64,822	
		SUB-TOTAL:	\$64,822	\$0	\$64,822	
		CORPORATION FOR NATIONAL AND COMMUNITY SERVICE TOTAL:	\$64,822	\$0	\$64,822	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
<u>DEPT OF HOMELAND SECURITY</u>						
EMPG	97.042	E07-368	43,326	0	43,326	
			\$43,326	\$0	\$43,326	
<u>DHS REGION 1 HLS/STATE MILITARY DEPT.</u>						
HOMELAND SECURITY GRANT PROGRAM						
	97.067	820-07	2,984	0	2,984	
			\$2,984	\$0	\$2,984	
<u>REGION 1 HLS/STATE MILITARY DEPT</u>						
HSGP						
	97.067	E06-022	214,561	0	214,561	
	97.067	E07-190	44,199	0	44,199	
			\$258,759	\$0	\$258,759	
<u>STATE MILITARY DEPARTMENT</u>						
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	E07-786	17,432	0	17,432	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	JM PW 14G	5,866	0	5,866	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	PW 100	3,600	0	3,600	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	PW 104	2,490	0	2,490	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	PW 106	2,463	0	2,463	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	PW 106	14,110	0	14,110	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	PW 108	4,087	0	4,087	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)						
	97.036	PW 112	8,523	0	8,523	2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
U.S. DEPARTMENT OF HOMELAND SECURITY						
STATE MILITARY DEPARTMENT						
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 113	9,830	0	9,830	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 131	38,112	0	38,112	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 148	1,046	0	1,046	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 149	8,374	0	8,374	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 152	6,136	0	6,136	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 154	46,318	0	46,318	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 164	11,977	0	11,977	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 165	15,086	0	15,086	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 194	20,899	0	20,899	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 261	5,674	0	5,674	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 262	5,045	0	5,045	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 29	7,046	0	7,046	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 415	40,413	0	40,413	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 76	11,976	0	11,976	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 77	2,333	0	2,333	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 93	42,458	0	42,458	2
SUB-TOTAL:				\$0	\$331,295	
					\$331,295	

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>						
<u>WASHINGTON STATE PATROL</u>						
HSGP	97.067	C070656FED	114,156	0	114,156	
HSGP	97.067	WSP NO. CP80123FED	6,079	0	6,079	
		SUB-TOTAL:	\$120,235	\$0	\$120,235	
		U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL:	\$756,599	\$0	\$756,599	
		TOTAL FEDERAL AWARDS EXPENDED:	\$4,767,854	\$1,416,587	\$6,184,441	

The accompanying Notes to The Schedule of Expenditures of Federal Awards 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, 2007

NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – PROGRAM COSTS

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

NOTE 3 – NONCASH AWARDS - VACCINATIONS

The amount of vaccines reported on the schedule is the value of vaccine received by Skagit County during 2007 and priced as prescribed by the Department of Health.

NOTE 4 – INDIRECT COST RATE

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

(a) 20%, (b) 25% (c) 26.95%

NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENTS

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



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
Chief of Staff
Chief Policy Advisor
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