

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

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**Skagit County**

Audit Period  
**January 1, 2008 through December 31, 2008**

**Report No. 1002734**

Issue Date  
**December 28, 2009**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

December 28, 2009

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.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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# Federal Summary

## Skagit County January 1, 2008 through December 31, 2008

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, each major fund, except for the general fund, and the aggregate discretely presented component units and remaining fund information.

A qualified opinion was issued on the financial statements of the general fund.

#### **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 no instances of noncompliance that were material to the financial statements of the County.

### **FEDERAL AWARDS**

#### **Internal Control Over Major Programs:**

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified 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, with the exception of the Aging Cluster – Nutrition Services Program on which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are 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>
10.913	Farm and Ranch Lands Protection Program
16.738	Byrne Memorial Justice Assistance Grant Program
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction
93.045	Aging Cluster – Special Programs for the Aging – Title III, Part C – Nutrition Services
93.053	Aging Cluster – Nutrition Services Incentive Program
93.268	Immunization Grants
93.563	Child Support Enforcement
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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, 2008 through December 31, 2008**

- 1. Skagit County did not establish internal controls to ensure compliance with federal requirements over its Aging Cluster programs for allowable costs, suspension and debarment and procurement requirements.**

<b>CFDA Number and Title:</b>	93.045 Special Programs for the Aging – Title III, Part C – Nutrition Services 93.053 Nutrition Services Incentive Program
<b>Federal Grantor Name:</b>	U.S. Department of Health and Human Services
<b>Federal Award/Contract Number:</b>	08009-NUTR
<b>Pass-through Entity Name:</b>	Northwest Regional Council
<b>Pass-through Award/Contract Number:</b>	C20080073
<b>Questioned Cost Amount:</b>	\$0

## **Background**

Skagit County's Senior Services Department administers the County's adult aging program. The program's objective is to assist states and area agencies on aging in facilitating the development and implementation of a comprehensive, coordinated system for providing long-term care in home and community-based settings in a manner responsive to the needs and preferences of older individuals and their family caregivers. The County reported program expenditures of \$241,432 for fiscal year 2008.

## **Description of Condition**

We found the following internal control weaknesses and instances of noncompliance:

### Allowable Costs

For payroll costs charged directly to federal awards, federal regulations require employees to document the time and effort spent on each federal activity. These monthly records must reflect the actual distribution of the employee's activities. However, if an employee works on only one federal activity, semiannual certifications signed by the employee or a supervisor meet federal requirements.

During our review of payroll charges, we noted the County did not require eight salaried and seven hourly employees who worked solely on the Aging Cluster programs to prepare semiannual certifications. In fiscal year 2008, the County paid the employees \$474,333 from the federal program and from nonfederal resources.

### Suspension and Debarment

Federal regulations prohibit recipients of federal awards from granting subawards to subrecipients or awarding contracts in excess of \$25,000 to parties who are suspended or debarred from doing business with the federal government. Federal award recipients must take the following steps to comply with award requirements:

- Consult the federal Excluded Parties List System before awarding funds to subrecipients or contractors.
- 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.

When awarding a vendor contract for \$145,435, the County did not ensure the vendor was not suspended or debarred.

We determined the vendor was not suspended or debarred by reviewing the Excluded Parties List System.

### Procurement

When purchasing goods and services with federal funds, local governments must follow applicable state laws and the A-102 Common Rule. State law requires counties competitively bid supplies and materials for purchases that exceed \$25,000.

The County did not competitively bid a contract for purchasing supplies and materials from a food vendor, totaling \$145,435, during 2008.

### **Cause of Condition**

The County's Senior Services Department:

- Was unaware of the federal requirements regarding time and effort reporting.
- Was unaware of the compliance requirements for suspension and debarment.
- Did not have controls in place to ensure compliance with procurement requirements.

### **Effect of Condition**

#### Allowable Costs

Payroll costs charged to the County's adult aging program are not supported by time and effort certifications, required by the federal government. However, because the employees work solely on the aging program, we do not question the costs.

## Suspension and Debarment

Failure to ensure that contractors and subrecipients are authorized to participate in federal programs can result in unallowable costs being charged to the grant. This could impact the County's eligibility to receive federal funding in the future.

## Procurement

The County purchased items using a contract through the Washington State Department of General Administration that had expired and that did not apply to the items purchased. This increases the risk that the best price was not obtained.

We were able to determine that costs charged to this program were allowable in accordance with the Aging Cluster grants and are not questioning related costs.

## **Recommendation**

We recommend the County establish and follow internal controls to ensure compliance with federal allowable costs, suspension and debarment and procurement requirements.

## **County's Response**

*Northwest Regional Council, the pass through agency for this grant, monitored annually the fiscal procedures including allocating employee time charged to grant programs, and the County has passed these audits. The County is implementing procedures to ensure that employee time charged to grant programs is documented as per federal requirements. Suspension and debarment certification language is now included in all county contracts. Procedures are being established to ensure additional verification is performed on all purchases under state bid contracts to ensure that these contracts are still current and in effect.*

## **Auditor's Remarks**

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

## **Applicable laws and Regulations**

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

The auditee shall:

(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.



U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 8(h), states in part:

- 1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- 2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- 3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

- (1) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec. 85.210, and the amount of the contract is expected to equal or exceed \$25,000.

Title 2, Code of Federal Regulations, Section 180.300 - 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.

Title 45, Code of Federal Regulations, Section 92.36 - Procurement, states in part:

Grantees and sub-grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 92.36.

Grantees and sub grantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Revised Code of Washington 36.32.245, Competitive bids – Requirements – Advertisements – Exceptions, states in part:

(1) No contract for the purchase of materials, equipment, or supplies may be entered into by the county legislative authority or by any elected or appointed officer of the county until after bids have been submitted to the county.

# **Schedule of Federal Audit Findings and Questioned Costs**

**Skagit County  
January 1, 2008 through December 31, 2008**

**2. Skagit County did not comply with allowable cost compliance requirements related to its Child Support Enforcement grants.**

<b>CFDA Number and Title:</b>	93.563 Child Support Enforcement
<b>Federal Grantor Name:</b>	Department of Health and Human Services Administration For Children And Families
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Department of Social and Health Services.
<b>Pass-through Award/Contract Number:</b>	2110-80608 & 75-1501-0-1-609
<b>Questioned Cost Amount:</b>	\$83,979

### **Description of Condition**

During fiscal year 2008, the County received \$583,467 in Child Support Enforcement grant funds to enforce support obligations owed by noncustodial parents, locate absent parents, establish paternity and obtain child and spousal support. We reviewed the method used to calculate indirect costs claimed for reimbursement by this grant and found the County had not updated numbers used in the calculation since 2002. The proposal also did not contain an organizational chart as required by the grant. Indirect cost rate proposals should be updated annually unless agreed to in advance by the grantor. We discussed this issue with the state pass-through agency, Department of Social and Health Services, which stated it expects indirect cost rates to be updated every three to five years. We also discussed this with the U.S. Department of Health and Human Services Division of Cost Allocation, which stated the rate should be updated annually.

### **Cause of Condition**

The County was not aware of this requirement and did not have controls in place to ensure it was met.

### **Effect of Condition**

The County used an obsolete figure to calculate indirect costs claimed for reimbursement. During fiscal year 2008, the County was reimbursed for \$83,979 in indirect costs that were not supported by a current proposal. We are questioning this amount.

## **Effect of Condition and Questioned Costs**

The County used an obsolete figure to calculate indirect costs claimed for reimbursement. During fiscal year 2008, the County was reimbursed for \$83,979 in indirect costs that were not supported by a current proposal. We are questioning this amount.

## **Recommendation**

We recommend the County update its indirect cost rate proposals annually, as required, and consult with the grantor about repayment of questioned costs.

## **County's Response**

*The Washington State Department of Social and Health Services, the pass through agency for this grant, monitored annually the indirect cost allocation rate applied in the County's reimbursement requests. The County received a letter each year requesting certification of the rate to be used and a copy of the plan. We provided this requested information to DSHS and no objections were raised. Accordingly, it was assumed that the rates used were acceptable.*

*Beginning for the calendar year 2010, the County will perform annual updates to the indirect cost allocation plan.*

## **Auditor's Remarks**

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

## **Applicable Laws and Regulations**

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300, states in part:

The auditee shall:

(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.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Governments, Attachment C, Section D, states in part:

3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Circular and

maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub recipient's plan.

4. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency on a case by case basis.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Governments, Attachment E, Section D, Part 1(d) states in part:

Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

# Schedule of Audit Findings and Responses

## Skagit County January 1, 2008 through December 31, 2008

### 3. Skagit County has inadequate internal controls over accounting and financial reporting.

#### Background

County management, the state Legislature, state and federal agencies and bondholders rely on financial statement information to make decisions. It is the responsibility of County management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified significant deficiencies in controls that adversely affect the County's ability to produce reliable financial statements.

We issued a similar finding to the County during the previous audit of its 2007 financial statements. The County has made improvements in its internal controls over the preparation of its financial statements. However, material weaknesses in controls continue.

*Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate a material weakness, as defined below in the Applicable Laws and Regulations section, 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:

- Over the past four years, there has been significant turnover in the position primarily responsible for the compilation of departmental information and preparation of the County's financial statements. As a result, there has been a loss of institutional knowledge regarding the County's operations and accounting practices.
- The system of internal controls over the calculation of depreciation continued to be inappropriate and did not ensure depreciation amounts were correctly calculated and consistently applied to similar assets. The County does not use special software to track and calculate depreciation for its capital assets. Assets are tracked and depreciation is calculated using Microsoft Excel spreadsheets. We noted the internal controls over the calculation of depreciation consisted of a cursory review because the employees responsible did not have adequate time to perform a detailed review or testing. Therefore, this control was not designed to detect and correct errors at the calculation level in a timely manner.

- Staff responsible for preparing accounts receivable amounts for the General Fund financial statements did not have the necessary information about court operations to ensure all applicable accounts receivable were included and were unaware of acceptable methods for estimating the collectible portion of its District Court accounts receivable. Further, the County did not retain adequate documentation to support the accounts receivable balance shown on the General Fund financial statements.
- Communication between the County Auditor's Office, Public Works and District Court departments of the County was not sufficient to ensure that staff preparing the capital asset depreciation and accounts receivable balances for the financial statements fully understood the intended use of the information they were providing or receiving.
- A sufficiently detailed review and reconciliation of the financial statement amounts was not performed to ensure the statements were accurate, complete and adequately supported.

These deficiencies in internal controls make it reasonably possible that serious misstatements could occur and not be prevented or detected by the County in future years.

### **Cause of Condition**

The County has experienced significant turnover in the key positions responsible for the preparation of the financial statements. County management did not provide those assigned to prepare the financial statements with adequate resources, training or oversight to ensure their knowledge of the accounting principles, reporting requirements and County operations.

### **Effect of Condition**

There were several large balances on the financial statements that contained significant errors or that we were not able to audit. The particular issues are as follows:

#### General Fund Accounts Receivable

**Lack of supporting documentation:** The County was not aware of the requirement to maintain documents to support reported accounts receivable balances. Courts statewide use the same accounting system which is a point-in-time system and does not allow reports to be recreated after year end.

This year, we were not able to perform a detailed review of the individual accounts that compose accounts receivable of \$1,293,722, reported in the General Fund. We were also unable to determine correct value for local court receivables at the County. As a result, we will qualify our opinion on the General Fund because we were unable to audit the records supporting the accounts receivable balance presented on the financial statements.

Beginning with the 2009 fiscal year, the Administrator of the Court's Office will run these reports for all courts required to follow Governmental Accepted Accounting Principles to ensure the data will be available to support figures presented in the financial statements.

**Failure to include all accounts receivable:** Controls over the preparation of the County's financial statements did not ensure that Superior Court net receivable balances of \$221,575 were included in the financial statement balance. Therefore, the accounts receivable balance shown in the financial statements was incomplete. The County has not corrected this error.

**Estimation of uncollectible balances:** The County was not aware of acceptable methods for estimating the collectible portion of its District Court accounts receivable and relied on a methodology used in previous years. The County receives an annual letter from the Administrator of the Courts detailing an acceptable method for estimating these receivables and the existence of Superior Court receivable balances; the County's Accounting Department was unaware of the existence of this letter. The County has not corrected this error.

#### Capital Asset Depreciation

The County's supporting documentation for capital asset depreciation contained multiple errors that were not detected by County personnel. Supporting worksheets for the Equipment Rental and Revolving and Drainage Utility funds provided for audit did not agree to the County's general ledger. Furthermore, the method for calculating depreciation was not consistently applied to similar assets. We also identified smaller errors in supporting worksheets provided, including missing acquisition dates and formula errors. This information is necessary to ensure depreciation expense is accurately calculated. As a result, various immaterial misstatements were identified during the audit. The County has not corrected these errors.

#### Cash and Cash Equivalents

Due to the turnover in key positions involved in the financial statement preparation, the County was not aware of five bank accounts held by the County Clerk's Office that should have been included in the County's Cash and Cash Equivalents balance reported on the financial statements.

Cash and Cash Equivalents reported for the General Fund on the County's financial statements was understated by \$1,772,872. This error has been corrected by the County.

#### Schedule of Expenditures of Federal Awards

The portion of Schools and Roads Grants to States program expenditures omitted from the Schedule of Expenditures of Federal Awards was miscoded in the general ledger.

Due to the turnover in staff, the employees responsible for the preparation of this schedule did not know that Schools and Roads Grant activity had been miscoded. As a result, expenditures reported on the Schedule of Expenditures of Federal Awards were understated by \$516,089. This error has been corrected by the County.



## Recommendation

We recommend the County:

- Ensure those assigned the preparation of the financial statements are provided the necessary resources, time, training and oversight to prepare accurate and supported financial statements.
- Strengthen internal controls over the calculation of capital asset depreciation to ensure spreadsheets contain all required supporting information, have formulas that generate accurate results and are operating as designed, and totals properly agree to the general ledger.
- Strengthen internal controls over the application of accounting standards to ensure appropriate supporting documentation is maintained for balances reported on the financial statements.
- Establish and maintain internal control procedures to ensure effective communication between County departments.
- Establish and follow internal control procedures that include a thorough review of the financial statements after final preparation.

## County's Response

*As indicated in the finding, during 2008 the County experienced turnover in both key positions primarily responsible for the preparation of the annual financial statements. This resulted in a loss of continuity and some general ledger accounting functions were not maintained on a consistent basis. Accordingly, there were some deficiencies in controls over accounting and reporting.*

### General Fund Accounts Receivable

*Accounting staff is aware of requirements to maintain documentation for accounts receivable and all other balance sheet balances. District Court receivables in the amount of \$1,293,722 were recorded based on a summary report of outstanding receivables printed from the statewide JIS court receivables system. The summary report is the supporting documentation for this balance. This has been the practice for at least the past 20 years and it has been acceptable for each of those audits until 2008.*

*The individual account detail for District Court receivables resides within the JIS system. The fact that the auditors were unable to extract the detail for audit purposes is an issue that is beyond the County's control. The JIS system is owned and maintained by the State of Washington; it is provided by the State for the use of local court jurisdictions. We have been advised by both the State Auditor's Office and the State of Washington Administrative Office of the Courts that they have jointly resolved this issue for the 2009 year.*

*Superior Court staff, the County Clerk and accounting staff are unaware of a receivable balance of \$221,575 that was not booked for 2008. The identification of such an amount*

*was not brought to our attention until the receipt of the draft of the audit finding. We will pursue this issue and adjust processes and controls to address any weaknesses that are identified.*

*The estimate of the uncollectible portion of District Court receivables was computed on the basis of the historical experience of percentages collected. This computation is well documented, and this methodology is consistent with GAAP. It is the standard methodology used for computing such allowances and has been used in all prior years. The letter from the Washington State Administrative Office of the Courts regarding court receivables, referenced by the State Auditor's Office in their audit finding, offers an alternative methodology for performing this computation. This letter reads in part: "Use of the methodology described here is NOT mandatory." Accordingly, it was presumed that the existing GAAP methodology would continue to be acceptable.*

*Skagit County District Court (SCDC) utilizes the Judicial Information System accounting module. This system used by every district and municipal court in the state except Seattle Municipal Court is maintained and operated by the Washington State Administrative Office of the Courts (AOC). The information collected and forwarded by SCDC to the Skagit County Auditor was prepared in accordance with instruction from AOC and in the same manner utilized for nearly twenty years. To the extent that there is a deficiency in the information so provided, this deficiency is a statewide issue. Fortunately, through the efforts of the State Auditor's Office, SCDC and AOC an acceptable resolution of this issue was reached whereby AOC will extract and forward appropriate information to the State Auditor. Accordingly this issue should not pose a future problem for the District and Municipal Courts of Washington.*

#### *Capital Asset Depreciation*

*Excel spreadsheets are used to track County assets and compute depreciation. These spreadsheets were reviewed. Computations were checked on a test basis and some errors were corrected. However, in certain cases immaterial errors in historical data dating back many years could not be corrected within the existing constraints of time and staffing. The County is in the process of evaluating a database to track fixed assets and improve controls over the accounting processes for fixed assets.*

#### *Cash and Cash Equivalents*

*Trust accounts held by Superior Court in the amount of \$1,772,872 were not booked for 2008. A review of historical accounting records revealed that these accounts have not been recorded on the books since 1998. As these are trust accounts, the recording of this cash balance is entirely offset by a related liability. Accordingly, there is no net effect to the balance sheet of the general fund.*

#### *Schedule of Expenditures of Federal Awards*

*As noted, an error in the coding of revenue in the amount of \$516,089 received from the federal government resulted in the omission of this balance from the Schedule of Federal Awards. The County is in the process of improving controls over account coding and account structures to ensure that amounts are correctly reflected in the financial statements.*

## Auditor's Remarks

We appreciate the steps the County is taking to resolve this issue. We will review the condition during our 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, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, 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.

The *Budget Accounting and Reporting System* (BARS) Manual, Part 3, Accounting, Chapter 1, 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*, January 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 combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting

principles such that there is a more than remote likelihood that 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, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected . . . .

# Schedule of Prior Federal Audit Findings

## Skagit County January 1, 2008 through December 31, 2008

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.

<b>Audit Period:</b> 2007	<b>Report Reference No:</b> 75267	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 97.067
<b>Federal Program Name and Granting Agency:</b> Homeland Security Grant Program, U.S. Department of Homeland Security		<b>Pass-Through Agency Name:</b> Washington State Patrol	
<b>Finding Caption:</b> Skagit County did not comply with federal suspension and debarment requirements for its Homeland Security Grant Program.			
<b>Background:</b> 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.  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 did not question these costs.			
<b>Status of Corrective Action: (check one)</b> <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			
<b>Corrective Action Taken:</b> <i>Per a discussion with employees of the State Auditor's Office during a federal grant requirements training, I have added a clause to our purchase order format. Attached to my reply email is a blank copy of our Purchase Order form that I print onto Sheriff's Office letterhead.</i>  <i>The purchase order clause states "Vendor certifies, by accepting this order, that neither it nor its principals nor any sub-contractor nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in this transaction by any Federal department or agency. Vendor shall provide immediate written notice to if at any time it learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances."</i>			

# **Status of Prior Audit Findings**

## **Skagit County December 9, 2009**

The status of findings contained in the prior years' audit reports of Skagit County is provided below:

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

Financial and Single Audit Report No. 75267, dated September 22, 2008

### **Background**

During the 2007 audit, we identified significant deficiencies in internal controls that, when taken together represented a material weakness in the County's controls over financial statement preparation.

The County's financial statements and required supplemental information were prepared and reviewed by multiple people. Controls over financial statement preparation were focused only on the preparation of the different segments and no one performed a final review of the annual report as a whole after the statements, notes and required schedules are compiled.

The County's internal controls related to selecting and applying appropriate accounting principles for its operations were inadequate. The County is required to report the estimated closure and post-closure care costs associated with its solid waste landfills as a liability, but the County was not aware of this. The County did not have a system in place to ensure it was in compliance with these requirements.

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. The internal controls over the calculation of depreciation consisted of a cursory review and did not include detailed testing. The controls were not designed to detect and correct errors at the calculation level or in the depreciation expense balance in a timely manner.

### **Status**

The County has implemented internal controls, which include a final review of the annual report as a whole; however, we identified other material weaknesses over the financial statement preparation process. See Schedule of Audit Findings and Responses, Finding 3.

The County has implemented internal controls related to selecting and applying appropriate accounting principles for its operations. For fiscal year 2008, the County

was in compliance with Statement No. 18 from the Governmental Accounting Standards Board (GASB).

We again identified significant control deficiencies in the County's system of internal controls over the calculation of depreciation. See Schedule of Audit Findings and Responses, Finding 3.

**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, 2008 through December 31, 2008**

Board of Commissioners  
Skagit County  
Mount Vernon, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units and remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 9, 2009. Our report was modified to include a qualified opinion on the financial statements of the General Fund.

During the year ended December 31, 2008, the County implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

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 3.

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 3 to be a material weakness.

### **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

December 9, 2009

# **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, 2008 through December 31, 2008**

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, 2008. 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.

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the County did not comply with requirements regarding allowable costs/cost principles and procurement and suspension and debarment that are applicable to the Aging Cluster Nutrition Services Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraphs, 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, 2008. The results of our auditing

procedures also disclosed another 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 2.

## ***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.

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

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 more than a 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a 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. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs, we consider Findings 1 and 2 to be material weaknesses.

The County's responses to the findings identified in our audit are 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" written in a larger, more prominent script than the last name "Sonntag".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 9, 2009

# **Independent Auditor's Report on Financial Statements**

**Skagit County**  
**January 1, 2008 through December 31, 2008**

Board of Commissioners  
Skagit County  
Mount Vernon, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed on page 28. 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.

The County did not maintain detailed reports for the General Fund accounts receivable balances; therefore, the individual accounts that compose this balance could not be determined or audited. The County's General Fund accounts receivable, net of estimated uncollectable accounts, totaled \$1,293,722 at the end of fiscal year 2008. This balance is made up of District Court receivables. The Court is unable to regenerate these reports as the accounting system in use is a point-in-time system and does not allow reports to be recreated.

In our opinion, except for the effects of adjustments, if any, as might have been determined had we been able to examine evidence regarding General Fund accounts receivable as described above, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund of Skagit County, Washington, as of December 31, 2008, and the changes in financial position and budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, Mental Health Fund, County Road Fund, Facilities Improvement Fund, Solid Waste

Fund, Drainage Utility Fund and the aggregate discretely presented component units and remaining fund information of Skagit County, Washington, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the Mental Health and County Road funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 6 and 8, during the year ended December 31, 2008, the County implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

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 29 through 41 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.



**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 9, 2009

# **Financial Section**

**Skagit County  
January 1, 2008 through December 31, 2008**

## ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2008

## ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2008

Statement of Activities – 2008

Balance Sheet – Governmental Funds – 2008

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
– 2008

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2008

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balance of Governmental Funds to the Statement of Activities – 2008

Budgetary Comparison Statement - General Fund – 2008

Budgetary Comparison Statement – Mental Health Fund – 2008

Budget Comparison Statement – County Road Fund – 2008

Statement of Net Assets – Proprietary Funds – 2008

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary  
Funds – 2008

Statement of Cash Flows – Proprietary Funds – 2008

Statement of Fiduciary Net Assets – Fiduciary Funds – 2008

Notes to Financial Statements – 2008

## ***SUPPLEMENTAL INFORMATION***

Schedule of Expenditures of Federal Awards – 2008

Notes to the Schedule of Expenditures of Federal Awards – 2008

This discussion and analysis provides a narrative overview of Skagit County's financial activities for the fiscal year ended December 31, 2008. It should be considered in conjunction with information contained in the financial statements and in the notes to the financial statements.

## **FINANCIAL HIGHLIGHTS**

- As of December 31, 2008, total assets of the County exceeded total liabilities by \$398.4 million (net assets). Net assets invested in capital assets (net of depreciation and related debt) account for 88% of this amount, at \$349.9 million. Of the remaining net assets, \$33.2 million was restricted for specific purposes and \$15.3 million was unrestricted.
- Ending net assets for governmental activities was \$396.9 million. Of that amount, \$348.7 million was invested in capital assets, \$33.2 million was restricted, and \$15 million was unrestricted.
- Ending fund balance for the General Fund was \$8.03 million, an increase of \$980 thousand over the previous year.
- Ending fund balance for the County Road fund was \$12.9 million, an increase of \$632 thousand over the previous year.
- Total long-term liabilities of the County were \$31.1 million at December 31, 2008.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statements include the government-wide financial statements, the fund financial statements, and the notes to the financial statements.

### **Government-wide Financial Statements**

These statements include the statement of net assets and the statement of activities. They provide an integrated picture of the County's financial information as a whole, and are presented on the full accrual basis of accounting, a methodology similar to that used by private-sector businesses. Revenues and expenses are recognized when earned or incurred, regardless of the timing of the receipts or payments. These statements distinguish between functions of government that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") and 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 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. Other general government services provided include elections, property assessment, tax collection, and the issuance of licenses. The business-type activities of Skagit County include solid waste disposal and a drainage utility.

The statement of net assets presents all of Skagit County's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as an indicator of whether the financial position of the County is improving or deteriorating. Non-financial indicators, such as the condition of infrastructure systems or changes in tax base, should also be considered in evaluating financial stability.



The statement of activities presents information showing how the government's net assets changed during the year. It separates program revenue (generated by specific programs through charges for services, grants, and contributions) from general revenue (from taxes and other sources not generated by a particular program), showing to what extent each program relies on general revenues for funding.

The financial statements also include information for The Emergency Medical Services Commission, a component unit of Skagit County. The component unit is not covered in this discussion. Additional information concerning this entity may be found in Note I of the notes to the financial statements.

### **Fund Financial Statements**

Skagit County uses fund accounting to control and manage monies for specific purposes. Some funds may be mandated by state law or by other legal requirements.

### **Governmental Funds**

Most general government services are accounted for in the governmental funds, using the modified accrual basis of accounting. This method focuses on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. This perspective is narrower than that reflected in the government-wide financial statements, which focuses on a more long-term view. Reconciliation statements are provided which detail the differences between governmental activities in the government-wide statements and the information presented in the fund financial statements for the governmental funds.

Skagit County's major funds - the General Fund, the Mental Health Fund, the County Road Fund, and the Facility Improvement Fund - are presented separately in the fund statements. Data for the remaining governmental funds are combined into a single, aggregated column.

### **Proprietary Funds**

Proprietary funds, which include enterprise and internal service funds, use the full accrual method of accounting and are used to account for functions which are intended to be self supporting by their rates and fees. Skagit County has two enterprise funds - solid waste and a drainage utility. Internal service funds are used to account for the County's vehicle fleet, medical and unemployment insurance, computer systems, and other administrative services.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. They are not reflected in the government-wide financial statements because those funds are not available for use by Skagit County.

### **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.

**Skagit County, Washington  
Management's Discussion and Analysis  
December 31, 2008**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Assets**

Summarized information from the statement of net assets, as compared to the prior year, is as follows:

	Governmental		Business-Type		Total		% Change
	Activities		Activities				
	2008	2007	2008	2007	2008	2007	
<b>ASSETS</b>							
Current and Other Assets	\$70,637,084	\$72,305,817	\$6,027,740	\$6,115,801	\$76,664,824	\$78,421,618	-2.24%
Capital Assets and							
Construction in Progress (Net of Depreciation)	359,114,590	365,669,388	5,025,920	4,895,707	364,140,510	370,565,095	-1.73%
Total Assets	<u>429,751,674</u>	<u>437,975,205</u>	<u>11,053,660</u>	<u>11,011,508</u>	<u>440,805,334</u>	<u>448,986,713</u>	-1.82%
<b>LIABILITIES</b>							
Long-Term Liabilities	21,984,854	22,893,638	9,133,798	4,330,626	31,118,652	27,224,264	-14.30%
Other Liabilities	10,845,518	7,501,343	450,312	4,552,777	11,295,830	12,054,120	6.29%
Total Liabilities	<u>32,830,372</u>	<u>30,394,981</u>	<u>9,584,110</u>	<u>8,883,403</u>	<u>42,414,482</u>	<u>39,278,384</u>	-7.98%
<b>NET ASSETS</b>							
Invested in Capital Assets, Net of Related Debt	348,749,188	357,149,388	1,183,845	367,220	349,933,033	357,516,608	-2.12%
Restricted	33,205,192	31,094,299	-	-	33,205,192	31,094,299	6.79%
Unrestricted	14,966,923	19,336,537	285,705	1,760,885	15,252,628	21,097,422	-27.70%
Total Net Assets	<u>\$396,921,302</u>	<u>\$407,580,224</u>	<u>\$1,469,550</u>	<u>\$2,128,105</u>	<u>\$398,390,852</u>	<u>\$409,708,329</u>	-2.76%

Of the \$76.7 million in current and other assets at December 31, 2008, \$60.7 million is cash, cash equivalents and investments. A very small portion of this amount, \$778 thousand, is restricted for specific purposes. Accounts receivable and amounts due from other governments total \$9.9 million. Inventories/prepayments total \$5.6 million. The remaining \$0.4 million is deferred charges. Cash, cash equivalents and investments represented 79% (compared to 82% in 2007), while accounts receivable and amounts due from other governments accounted for 13.3% (compared to 9.9% from 2007).

At December 31, 2008, the County had outstanding long-term liabilities of \$31.1 million. Of this total, \$2.2 million was due within one year. See Note V of the notes to the financial statements for more information regarding long term debt. Other liabilities amounted to \$11.3 million. These represent primarily accounts payable and accrued liabilities due as a result of ordinary operations.

The largest portion of the County's net assets (87.8%) reflects its investment in capital assets, 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 to finance 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, 8.3% of the County's net assets are subject to legal restrictions for specific purposes. The remaining balance of net assets, \$15.3 million (3.8%), is unrestricted and may be used to finance ongoing general operations of the County.

**Skagit County, Washington  
Management's Discussion and Analysis  
December 31, 2008**

**Statement of Changes in Net Assets**

The County's total net assets decreased by \$11.3 million in 2008. Governmental activities reflected a decrease of \$10.7 million while the net assets of business-type activities decreased \$.7 million. Key elements in these changes are shown in the following table:

	Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
<b>REVENUES</b>						
Program Revenues						
Charges for Services	\$30,973,324	\$17,124,951	\$9,884,404	\$10,259,952	\$40,857,728	\$27,384,903
Operating Grants and Contributions	9,659,021	22,093,519	266,239	203,909	9,925,260	22,297,428
Capital Grants and Contributions	1,496,744	2,667,303	-	-	1,496,744	2,667,303
General Revenues						
Taxes	57,778,709	56,699,397	-	-	57,778,709	56,699,397
Interest Earnings on Investments	3,040,686	4,578,687	138,581	266,841	3,179,267	4,845,528
Gain/(Loss) on Sale of Assets	(82,021)	-	-	-	(82,021)	-
Total Revenues	<u>102,866,463</u>	<u>103,163,857</u>	<u>10,289,224</u>	<u>10,730,702</u>	<u>113,155,687</u>	<u>113,894,559</u>
<b>PROGRAM EXPENSES</b>						
General Government	34,187,307	17,446,068	-	-	34,187,307	17,446,068
Judicial	6,385,303	6,547,583	-	-	6,385,303	6,547,583
Public Safety	22,665,563	24,872,632	-	-	22,665,563	24,872,632
Physical Environment	3,008,208	3,509,248	-	-	3,008,208	3,509,248
Transportation	28,136,224	32,079,278	-	-	28,136,224	32,079,278
Economic Environment	5,947,702	5,763,176	-	-	5,947,702	5,763,176
Health and Human Services	12,606,481	9,293,864	-	-	12,606,481	9,293,864
Culture and Recreation	2,782,984	3,020,552	-	-	2,782,984	3,020,552
Solid Waste	-	-	8,216,764	8,775,500	8,216,764	8,775,500
Drainage Utility	-	-	905,641	787,587	905,641	787,587
Interest on Long Term Debt	687,761	708,941	-	-	687,761	708,941
Total Expenses Before Transfers	<u>116,407,533</u>	<u>103,241,342</u>	<u>9,122,405</u>	<u>9,563,087</u>	<u>125,529,939</u>	<u>112,804,429</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,541,070)	(77,485)	1,166,819	1,167,615	(12,374,251)	1,090,130
Transfers	154,075	131,923	(154,075)	(131,923)	-	-
Change in Net Assets	<u>(13,386,995)</u>	<u>54,438</u>	<u>1,012,744</u>	<u>1,035,692</u>	<u>(12,374,251)</u>	<u>1,090,130</u>
Net Assets, January 1	407,580,224	408,716,335	2,128,105	4,742,063	409,708,329	413,458,398
Prior Period Adjustment	2,728,073	(1,190,550)	(1,671,299)	(3,649,650)	1,056,774	(4,840,200)
Net Assets, January 1 - Restated	<u>410,308,297</u>	<u>407,525,785</u>	<u>456,806</u>	<u>1,092,413</u>	<u>410,765,103</u>	<u>408,618,198</u>
Net Assets, December 31	<u><u>396,921,302</u></u>	<u><u>\$407,580,223</u></u>	<u><u>\$1,469,550</u></u>	<u><u>\$2,128,105</u></u>	<u><u>\$398,390,852</u></u>	<u><u>\$409,708,328</u></u>

Total revenues were \$113 million in 2008, a slight decrease from 2007. Governmental activities provided \$103 million (91%), while business-type activities added \$10.3 million. Within

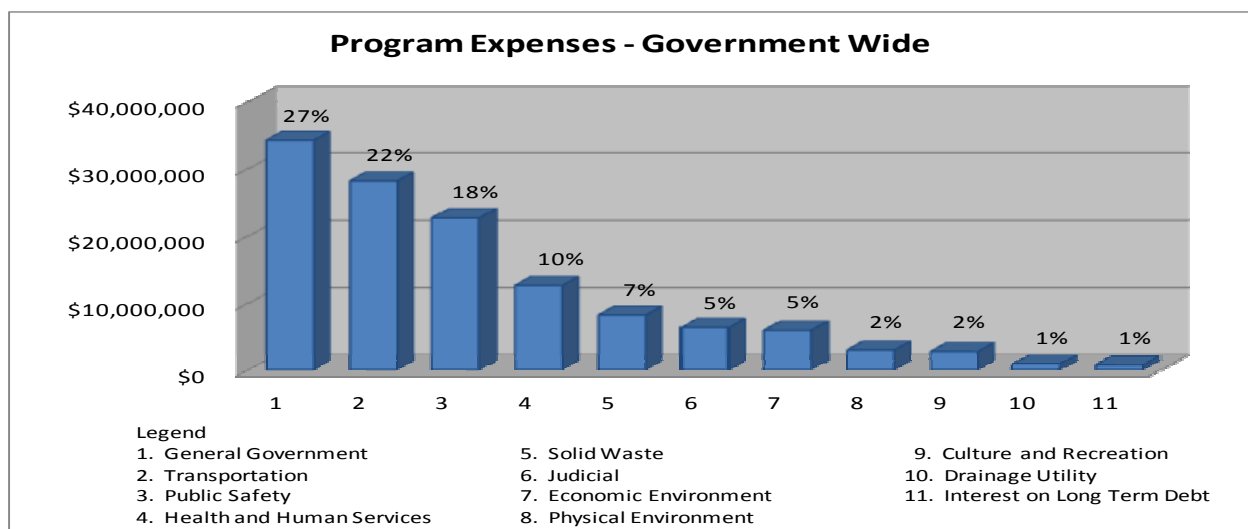
**Skagit County, Washington  
Management's Discussion and Analysis  
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governmental activities, tax revenue accounted for 56% of total revenue sources (compared to 55% in 2007), with grants and contributions accounting for 10.8% (down from 24% in 2007).

Charges for services accounted for 96% of the revenues of business type activities, with the remaining provided by grants and interest income.

Total expenses for the year amounted to \$125.5 million, an increase of \$12.7 million over 2007. Governmental activities accounted for \$116.4 million (92.7%), with the largest program expenses in the areas of transportation, public safety, and general government. These three programs accounted for 73% of total governmental expenses. Of the \$9.1 million in business-type expenses, 90.1% is associated with the solid waste program, a 1.7% decrease from 2007.

The following graph illustrates 2008 government wide program spending:



**FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

**Governmental Funds Balance Sheet Analysis**

The General Fund, Mental Health Fund, County Road Fund, and Facility Improvement Fund are the County's major funds in 2008. The Mental Health Fund was not reported as a major fund in 2007, it meets the minimum requirements for major fund reporting for the first time in 2008. Together these funds account for 59% of total governmental fund assets and 55.9% of total governmental fund balances.

As of December 31, 2008, the County's governmental funds reported combined fund balances of \$45 million, a decrease from \$49 million in 2007. Of this amount, \$43.3 million (96%) is unreserved and available for spending within the designated funds. Reserved fund balance of \$1.7 million is not available for new spending because it has already been committed for prepaid expenses, loans, debt service, and inventory.

The General Fund is the primary operating fund of Skagit County. The unreserved fund balance of this fund increased from \$6.4 million at December 31, 2007, to \$7.7 million at December 31, 2008. Total fund balance increased from \$7 million to \$8 million. Total assets of the General Fund were \$13.8 million at December 31, 2008, accounting for 24.7 % of total governmental fund assets. This represents a decrease of \$.4 million from 2007.

**Skagit County, Washington  
Management's Discussion and Analysis  
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**Governmental Funds Revenue/Expenditure Analysis**

Total revenues for governmental funds were \$101.6 million in 2008. This represents a decrease of \$1.9 million from 2007, which is due primarily to decreased County Road Fund revenues. During the same period, total expenditures increased \$14.7 million. This increase is reflected primarily in the Facility Improvement Fund and the non-major governmental funds. The General Fund and the County Road fund account for 67.4% of all governmental fund revenue (down from 69.9% in 2007) and 56.8% of all expenditures (down from 65% in 2007).

The net change in fund balance for the General Fund in 2008 was a negative \$.5 million. The increase in fund balance for the County Road fund was \$.6 million. Fund balance for the Mental Health Fund increased \$.8 million. The decrease of \$6.8 million in fund balance for the Facility Improvement Fund was due to the expenditure of previous years' revenues and debt proceeds to construct or purchase capital facilities in 2008. The non-major governmental funds had an overall negative change in fund balances of \$1.1 million for 2008.

**Enterprise Funds Net Assets Analysis**

Both enterprise funds of Skagit County, the Solid Waste Fund and the Drainage Utility Fund, are considered major funds for 2008. Comparative information from the proprietary funds' statement of net assets is as follows:

**Business-Type Activities - Enterprise Funds**

	Net Assets					
	Solid Waste		Drainage Utility		Total	
	2008	2007	2008	2007	2008	2007
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and Cash Equivalents	\$2,513,958	\$3,504,870	\$2,572,982	\$2,252,344	\$5,086,940	\$5,757,214
Other Current Assets	928,856	746,203	64,527	335,747	993,383	1,081,950
<b>Total Current Assets</b>	<b>3,442,814</b>	<b>4,251,073</b>	<b>2,637,509</b>	<b>2,588,091</b>	<b>6,080,323</b>	<b>6,839,164</b>
<b>Non-Current Assets</b>						
Construction in Progress	-	-	564,293	751,347	564,293	751,347
Capital Assets	3,004,140	3,004,140	4,641,671	4,174,999	7,645,811	7,179,139
Less Accumulated Depreciation	(2,367,045)	(2,338,066)	(817,139)	(696,711)	(3,184,184)	(3,034,777)
Unamortized Debt Issue Costs	20,241	24,290	-	-	20,241	24,290
<b>Total Non-Current Assets</b>	<b>657,336</b>	<b>690,364</b>	<b>4,388,825</b>	<b>4,229,635</b>	<b>5,046,161</b>	<b>4,919,999</b>
<b>Total Assets</b>	<b>4,100,150</b>	<b>4,941,437</b>	<b>7,026,334</b>	<b>6,817,726</b>	<b>11,126,484</b>	<b>11,759,163</b>

*Continued on next page*

**Skagit County, Washington  
Management's Discussion and Analysis  
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Continued from previous page

**Business-Type Activities - Enterprise Funds**

	Net Assets					
	Solid Waste		Drainage Utility		Total	
	2008	2007	2008	2007	2008	2007
<b>LIABILITIES</b>						
Current Liabilities						
Accounts/Vouchers Payable	325,995	446,850	24,276	60,102	350,271	506,952
Other Current Liabilities	1,242,316	1,370,638	16,165	192,108	1,258,481	1,562,746
Total Current Liabilities	1,568,311	1,817,488	40,441	252,210	1,608,752	2,069,698
Non-Current Liabilities						
Bonds Payable	3,127,314	3,842,777	-	-	3,127,314	3,842,777
Other Non-Current Liabilities	4,908,439	3,706,272	12,429	12,309	4,920,868	3,718,581
Total Non-Current Liabilities	8,035,753	7,549,049	12,429	12,309	8,048,182	7,561,358
Total Liabilities	9,604,064	9,366,537	52,870	264,519	9,656,934	9,631,056
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	(3,204,980)	(3,862,415)	4,388,825	4,229,635	1,183,845	367,220
Unrestricted	(2,298,935)	(562,687)	2,584,640	2,323,572	285,705	1,760,885
Total Net Assets	(\$5,503,915)	(\$4,425,102)	\$6,973,465	\$6,553,207	\$1,469,550	\$2,128,105

As of December 31, 2008, the enterprise funds reported combined net assets of \$1.5 million (compared to \$2.1 million in 2007). This is the total of a \$5.5 million deficit in the Solid Waste Fund (up from \$4.4 million in 2007) and a positive \$7 million in the Drainage Utility Fund (up from \$6.6 million in 2007). The Solid Waste Fund reports an investment in capital assets, net of related debt, of a negative \$3.2 million. This 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. Additionally, net assets were impacted negatively in 2007 when a \$3.6 liability was recorded for future post closure landfill costs.

**Skagit County, Washington  
Management's Discussion and Analysis  
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**Enterprise Funds Revenue/Expenditure Analysis**

The following table provides comparative information related to revenues, expenses and net changes in fund balance for the enterprise funds:

	Business-Type Activities - Enterprise Funds					
	Changes in Net Assets					
	Solid Waste		Drainage Utility		Total	
	2008	2007	2008	2007	2008	2007
<b>REVENUES</b>						
Charges for Services	\$8,522,775	\$9,230,100	\$1,352,795	\$1,028,099	\$9,875,570	\$10,258,199
Intergovernmental	231,011	198,062	35,228	5,847	266,239	203,909
Interest Revenue	71,304	154,045	67,277	112,796	138,581	266,841
Miscellaneous Revenue	8,591	1,753	243	-	8,834	1,753
Total Operating Revenues	<u>8,833,681</u>	<u>9,583,960</u>	<u>1,455,543</u>	<u>1,146,742</u>	<u>10,289,224</u>	<u>10,730,702</u>
<b>EXPENSES</b>						
Personal Services	1,540,255	1,517,537	471,169	341,445	2,011,424	1,858,982
Contractual Services	4,939,183	5,425,819	-	-	4,939,183	5,425,819
Other Supplies and Expenses	1,522,461	1,580,940	314,044	325,713	1,836,505	1,906,653
Depreciation	28,980	35,522	120,428	120,428	149,408	155,950
Loss on Disposition of Capital Assets	-	-	-	-	-	-
Interest Expense	185,885	215,682	-	-	185,885	215,682
Total Operating Expenditures	<u>8,216,764</u>	<u>8,775,500</u>	<u>905,641</u>	<u>787,586</u>	<u>9,122,405</u>	<u>9,563,086</u>
Income (Loss) Before Transfers	616,917	808,460	549,902	359,156	1,166,819	1,167,616
Capital Contributions	-	-	-	-	-	-
Interfund Transfers	(24,431)	-	(129,644)	(131,923)	(154,075)	(131,923)
Change in Net Assets	<u>592,486</u>	<u>808,460</u>	<u>420,258</u>	<u>227,233</u>	<u>1,012,744</u>	<u>1,035,693</u>
Net Assets, January 1	(4,425,102)	(1,583,913)	6,553,207	6,325,975	2,128,105	4,742,062
Prior Period Adjustment	(1,671,299)	(3,649,650)	-	-	(1,671,299)	(3,649,650)
Net Assets, January 1 - Restated	<u>(6,096,401)</u>	<u>(5,233,563)</u>	<u>6,553,207</u>	<u>6,325,975</u>	<u>456,806</u>	<u>1,092,412</u>
Net Assets, December 31	<u>(\$5,503,915)</u>	<u>(\$4,425,103)</u>	<u>\$6,973,465</u>	<u>\$6,553,208</u>	<u>\$1,469,550</u>	<u>\$2,128,105</u>

Revenues from the Solid Waste Fund represent 85.8% of the total revenues for enterprise funds in 2008, a decrease from 89.3% in 2007. Total expenses for the funds were 88.6% of revenues, a slight decrease from 89% in 2007.

**Skagit County, Washington  
Management's Discussion and Analysis  
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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The following schedule provides a comparative analysis of the original and final amended General Fund budget:

**General Fund Budget Comparison  
For the Year Ended December 31, 2008**

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
BUDGETED FUND BALANCE, JANUARY 1	\$ 4,034,945	\$ 7,046,733	\$3,011,788
RESOURCES (IN-FLOWS)			
Taxes	31,442,500	31,442,500	-
Licenses & Permits	18,500	18,500	-
Intergovernmental Revenue	7,422,157	7,764,318	342,161
Charges for Goods and Services	5,063,715	5,082,332	18,617
Fines and Forfeits	1,999,950	1,999,950	-
Interest Revenue	2,813,700	2,813,700	-
Miscellaneous Revenues	361,580	377,269	15,689
Transfers In	123,000	238,825	115,825
Total Resources (in-flows)	<u>49,245,102</u>	<u>49,737,394</u>	<u>492,292</u>
Amounts Available for Appropriation	<u>53,280,047</u>	<u>56,784,127</u>	<u>3,504,080</u>
CHARGES TO APPROPRIATIONS (OUT-FLOWS)			
General Government Services	18,546,742	17,730,858	815,884
Judicial	7,249,618	7,605,589	(355,971)
Public Safety	17,746,730	18,107,684	(360,954)
Utilities and Environment	352,211	343,033	9,178
Economic Environment	199,216	200,305	(1,089)
Health and Human Services	4,200	4,200	-
Culture and Recreation	503,954	564,168	(60,214)
Debt Service	-	-	-
Capital Expenditures	30,000	184,864	(154,864)
Transfers Out	5,746,239	6,220,902	(474,663)
Amount Charged to Appropriations (out-flows)	<u>50,378,910</u>	<u>50,961,603</u>	<u>(582,693)</u>
BUDGETED FUND BALANCE, DECEMBER 31	<u>\$2,901,137</u>	<u>\$5,822,524</u>	<u>\$2,921,387</u>



**Skagit County, Washington**  
**Management's Discussion and Analysis**  
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The net increase in revenues in the final amended budget represented a favorable variance of .1%. The net increase in expenditures represented an unfavorable increase of 1.2%. Total budgeted expenditures increased only slightly more than revenue increased, a difference of \$90 thousand.

The final budget appropriation for general government services reflected a decrease primarily due to contingency amounts included in the original budget and later reclassified to the judicial and public safety functions in the final budget. The downturn in the economy resulted in a projected need for additional transfers out to the functions that would be most impacted by the decrease in revenues. This is represented by the increase in the final budget appropriation for transfers out as compared to the original budget.

**Skagit County, Washington  
Management's Discussion and Analysis  
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The following schedule provides an analysis of the final amended budget as compared to actual General Fund revenues and expenditures:

**General Fund Budget vs. Actual  
For the Year Ended December 31, 2008**

	Final Budget	Actual	Changes Favorable (Unfavorable)
FUND BALANCE, JANUARY 1	\$ 7,046,733	\$ 8,488,033	\$1,441,300
<b>RESOURCES (IN-FLOWS)</b>			
Taxes	31,442,500	30,156,377	(1,286,123)
Licenses & Permits	18,500	25,440	6,940
Intergovernmental Revenue	7,764,318	8,380,469	616,151
Charges for Goods and Services	5,082,332	5,317,169	234,837
Fines and Forfeits	1,999,950	1,976,200	(23,750)
Interest Revenue	2,813,700	2,180,652	(633,048)
Miscellaneous Revenues	377,269	421,672	44,403
Transfers In	238,825	219,714	(19,111)
Total Resources (in-flows)	<u>49,737,394</u>	<u>48,677,693</u>	<u>(1,059,701)</u>
Amounts Available for Appropriation	<u>56,784,127</u>	<u>57,165,726</u>	<u>381,599</u>
<b>CHARGES TO APPROPRIATIONS (OUT-FLOWS)</b>			
General Government Services	17,730,858	17,133,460	597,398
Judicial	7,605,589	7,321,077	284,512
Public Safety	18,107,684	17,786,083	321,601
Utilities and Environment	343,033	266,457	76,576
Economic Environment	200,305	182,812	17,493
Health and Human Services	4,200	6,125	(1,925)
Culture and Recreation	564,168	509,915	54,253
Debt Service	-	56,975	(56,975)
Capitalized Expenditures	184,864	154,888	29,976
Transfers Out	6,220,902	5,720,902	500,000
Amount Charged to Appropriations (out-flows)	<u>50,961,603</u>	<u>49,138,694</u>	<u>1,822,909</u>
FUND BALANCE, DECEMBER 31	<u>\$5,822,524</u>	<u>\$8,027,032</u>	<u>\$2,204,508</u>

The most significant variance is reflected in tax revenues, which decreased due to the economic downturn. Indirect tax revenues received from the State of Washington were higher than projected, resulting in a favorable variance in intergovernmental revenues. Actual interest revenues were lower due to decreased interest rates.

Actual expenditures were 3.6% less than budgeted. This is represented primarily by a slight decrease across most functions. The most significant variance is in transfers out; this reflects a budgeted transfer that was not made due to lower than projected revenues.

## **CAPITAL ASSETS AND LONG TERM DEBT**

### **Capital Assets**

The County's net capital assets were \$361 million at December 31, 2008. Construction in progress was an additional \$3 million. Capital assets include land, development rights, buildings, improvements, furniture and equipment, and infrastructure. Details of 2008 capital asset transactions are presented in Note IV.D of the notes to the financial statements.

During 2008 the County purchased, constructed and remodeled real property for County use. In one instance a historic building was purchased for \$.4 million pursuant to an agreement to re-sell the property to another local government pending their receipt of grant funding to finance the purchase. Ongoing projects include an addition to County administrative offices, design of a new jail facility, recreation center improvements, and courthouse masonry restoration.

### **Long-Term Debt**

At December 31, 2008, general obligation bonds payable as reported by governmental activities was \$15.525 million. This represents a \$.83 million decrease from the prior year. Business type activities reported general obligation bonds payable of \$3.96 million, a decrease of \$.71 million.

The County's remaining legal capacity for non-voted debt at December 31, 2008 was approximately \$243 million.

Additional information relating to long-term debt can be found in Note V of the notes to the financial statements.

## **ECONOMIC FACTORS**

The Skagit County economy did not escape the impacts of a global downturn. According to the United States Department of Labor, the number of unemployed individuals in the County increased to 5.7%, up from 4.7% a year ago. Sales tax collections for 2008, which accounted for approximately 17% of the County's General Fund budget, were down 6.3% from the collections 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.

**Skagit County, Washington  
Management's Discussion and Analysis  
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- In April of 2003, the voters approved a 1/10<sup>th</sup> 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 1/10<sup>th</sup> 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.
- In December 2008, the Board of County Commissioners signed a resolution authorizing a shift in the Road Levy in the amount of \$700,000 to the General Levy.

**Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either of the following:

Tim Holloran, 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, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 38,649,342	\$ 5,086,940	\$ 43,736,282	\$ 326,804
Investments	16,219,771	-	16,219,771	2,302,300
Receivables	2,990,592	763,140	3,753,732	327,592
Due from Other Governments	6,005,868	181,871	6,187,739	-
Internal Balances	65,138	(65,138)	-	-
Inventories and Prepayments	5,557,506	40,686	5,598,192	-
Deferred Charges	370,556	20,241	390,797	-
Restricted Assets:				
Restricted for Debt Service:				
Cash/Cash Equivalents	222,368	-	222,368	-
Investments	555,943	-	555,943	-
Capital Assets, Net	356,637,528	4,461,627	361,099,155	1,045,772
Construction in Progress	2,477,062	564,293	3,041,355	-
<b>Total Assets</b>	<b>429,751,674</b>	<b>11,053,660</b>	<b>440,805,334</b>	<b>4,002,468</b>
<b>LIABILITIES</b>				
<u>Liabilities</u>				
Accounts Payable	5,477,009	350,271	5,827,280	40,023
Other Liabilities	4,768,936	100,041	4,868,977	197,765
Due to Other Governments	599,573	-	599,573	15,013
Long Term Liabilities:				
Due within One Year	1,073,598	1,085,616	2,159,214	-
Due in More Than One Year	20,911,256	8,048,182	28,959,438	335,012
<b>Total Liabilities</b>	<b>32,830,372</b>	<b>9,584,110</b>	<b>42,414,482</b>	<b>587,813</b>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	348,749,188	1,183,845	349,933,033	1,045,772
Restricted for:				
General Government	4,551,916	-	4,551,916	-
Public Safety	1,649,723	-	1,649,723	-
Physical Environment	2,482,583	-	2,482,583	-
Transportation	12,888,347	-	12,888,347	-
Economic Environment	5,336,812	-	5,336,812	-
Health & Human Services	5,122,056	-	5,122,056	-
Culture and Recreation	398,443	-	398,443	-
Debt Service	775,311	-	775,311	-
Unrestricted	14,966,923	285,705	15,252,828	2,368,883
<b>Total Net Assets</b>	<b>\$ 396,921,302</b>	<b>\$ 1,469,550</b>	<b>\$ 398,390,852</b>	<b>\$ 3,414,655</b>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Activities**  
**For the Year Ended December 31, 2008**

Functions/Programs Primary Government:	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		Total
Governmental Activities:								
General Government	\$ 34,187,307	\$ 10,110,482	\$ 1,062,084	\$ 22,190	\$ (22,992,551)	\$ (22,992,551)	\$ -	
Judicial	6,385,303	2,515,475	443,030	-	(3,426,798)	(3,426,798)	-	
Public Safety	22,665,563	3,408,760	1,170,623	239,609	(17,846,571)	(17,846,571)	-	
Physical Environment	3,008,208	521,983	1,216,775	-	(1,269,449)	(1,269,449)	-	
Transportation	28,136,224	7,693,881	8,799	1,229,945	(19,203,599)	(19,203,599)	-	
Economic Environment	5,947,702	1,788,532	734,207	-	(3,424,964)	(3,424,964)	-	
Health and Human Services	12,606,481	3,999,141	4,930,122	-	(3,677,219)	(3,677,219)	-	
Culture and Recreation	2,782,984	935,070	93,381	5,000	(1,749,532)	(1,749,532)	-	
Interest on Long Term Debt	687,761	-	-	-	(687,761)	(687,761)	-	
Total Governmental Activities	116,407,533	30,973,324	9,659,021	1,496,744	(74,278,444)	(74,278,444)	-	
Business-Type Activities								
Solid Waste	8,216,764	8,531,366	231,011	-	545,613	545,613	-	
Drainage Utility	905,641	1,353,038	35,228	-	482,625	482,625	-	
Total Business-Type Activities	9,122,405	9,884,404	266,239	-	1,028,238	1,028,238	-	
Total Primary Government	125,529,938	40,857,728	9,925,260	1,496,744	(74,278,444)	(73,250,206)	-	
Component Unit								
Emergency Medical Services Commission	5,688,374	5,465,419	33,739	-	-	-	(189,216)	
Total Component Unit	5,688,374	5,465,419	33,739	-	-	-	(189,216)	
General Revenues								
Taxes								
Property					37,192,117	37,192,117	-	
Sales					15,301,986	15,301,986	-	
Other					5,284,606	5,284,606	-	
Interest and Investment Earnings					138,581	3,179,267	33,701	
Gain (Loss) from Sale of Capital Assets					(82,021)	(82,021)	-	
Transfers					154,075	0	-	
Total General Revenues and Transfers					60,891,449	60,875,955	33,701	
Change in Net Assets					(13,386,995)	(12,374,251)	(155,515)	
Net Assets, January 1					407,580,224	409,708,329	3,570,170	
Prior Period Adjustments					2,728,073	(1,671,299)	-	
Net Assets, January 1, as Restated					410,308,297	410,765,103	3,570,170	
Net Assets, December 31					\$ 396,921,302	\$ 398,390,852	\$ 3,414,655	

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2008**

	Major Funds				Other Governmental Funds	Total
	General Fund	Mental Health Fund	County Road Fund	Facility Improvement Fund		
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 8,929,408	\$ 1,478,752	\$ 7,088,144	\$ 511	\$ 11,041,660	\$ 28,538,475
Investments	-	3,544,156	5,632,196	284	7,599,078	16,775,714
Taxes Receivable	700,747	9,908	320,540	-	171,150	1,202,345
Accounts Receivable	1,293,722	-	321,684	-	3,528	1,618,934
Interest Receivable	86,086	-	-	-	-	86,086
Due from Other Funds	98,382	-	-	-	72,824	171,206
Due from Other Governments	2,073,102	575,912	722,344	-	2,568,705	5,940,063
Interfund Loans Receivable	191,500	-	-	-	434,000	625,500
Inventories and Prepayments	396,277	7,264	99,436	1,559	192,323	696,859
<b>Total Assets</b>	<b>13,769,224</b>	<b>5,615,992</b>	<b>14,184,344</b>	<b>2,354</b>	<b>22,083,268</b>	<b>55,655,182</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<u>Liabilities</u>						
Accounts and Vouchers Payable	471,254	275,438	504,617	433,652	777,725	2,462,685
Due to Other Funds	-	21,821	-	10,000	84,246	116,067
Due to Other Governmental Units	-	164,309	-	-	435,264	599,573
Accrued Wages Payable	972,151	15,754	317,985	4,599	334,395	1,644,884
Accrued Employee Benefits	390,276	8,707	113,655	1,642	138,266	650,546
Custodial Accounts	1,784,595	-	39,200	-	100,229	1,924,024
Deferred Revenue	2,123,918	9,908	320,540	-	176,150	2,630,514
Interfund Loans Payable	-	-	-	431,000	194,500	625,500
<b>Total Liabilities</b>	<b>5,742,192</b>	<b>493,937</b>	<b>1,295,997</b>	<b>880,893</b>	<b>2,240,775</b>	<b>10,653,793</b>
<u>Fund Balance</u>						
Reserved for:						
Inventory	-	-	-	-	51,877	51,877
Prepaid Items	152,254	3,156	40,595	675	56,675	253,355
Reserved for Loans Receivable	191,500	-	-	-	434,000	625,500
Debt Service	-	-	-	-	775,311	775,311
Unreserved, Undesignated, Reported in:						
General Fund	7,683,278	-	-	-	-	7,683,278
Special Revenue Funds	-	5,118,900	12,847,752	-	11,246,305	29,212,957
Capital Project Funds	-	-	-	(879,214)	7,278,325	6,399,111
<b>Total Fund Balances</b>	<b>8,027,032</b>	<b>5,122,056</b>	<b>12,888,347</b>	<b>(878,539)</b>	<b>19,842,494</b>	<b>45,001,389</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 13,769,224</b>	<b>\$ 5,615,992</b>	<b>\$ 14,184,344</b>	<b>\$ 2,354</b>	<b>\$ 22,083,268</b>	<b>\$ 55,655,182</b>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Assets**  
**December 31, 2008**

Total fund balances as shown on the Governmental Fund Balance Sheet	\$ 45,001,389
Net capital assets of governmental funds as of December 31, 2008 Capital assets used in the activities of governmental funds are not financial resources and therefore are not reported in the funds.	350,980,756
Revenues deferred in the governmental funds and recognized as revenue of the current period on the statement of activities.	2,496,066
Net assets of the internal service funds Internal service funds are included in governmental activities on the statement of net assets.	19,990,512
Balance of long-term liabilities of the governmental funds as of December 31, 2008 Liabilities not due and payable in the current period are not reported in the governmental funds.	(21,547,421)
Total net assets as reported on the Statement of Net Assets	\$ 396,921,302

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, 2008**

	Major Funds				Other Governmental Funds	Total
	General Fund	Mental Health Fund	County Road Fund	Facility Improvement Fund		
<b>Revenues</b>						
Property Taxes	\$ 20,131,315	\$ 270,687	\$ 10,809,038	\$ -	\$ 5,818,158	\$ 37,029,198
Sales and Use Taxes	8,134,192	2,345,546	-	-	4,822,248	15,301,986
Other Taxes	1,890,870	5,922	346,600	-	3,041,215	5,284,606
Licenses and Permits	25,440	-	83,341	-	1,281,501	1,390,282
Intergovernmental Revenues	8,380,489	196,182	6,881,078	-	8,830,498	24,288,227
Charges for Services	5,317,169	1,073,871	1,433,007	-	3,228,294	11,052,341
Fines and Forfeits	1,976,200	-	-	-	124,995	2,101,195
Interest Earnings	2,180,652	100,116	277,810	101,109	481,426	3,140,914
Donations	47,028	-	-	-	384,814	431,841
Other Revenues	374,644	15,480	140,078	-	1,018,650	1,548,852
<b>Total Revenues</b>	<b>48,457,979</b>	<b>4,007,804</b>	<b>19,970,752</b>	<b>101,109</b>	<b>29,031,798</b>	<b>101,569,442</b>
<b>Expenditures</b>						
<b>Current:</b>						
General Government	17,133,460	-	200,104	-	893,768	18,227,332
Judicial	7,321,077	-	-	-	-	7,321,077
Public Safety	17,788,083	-	-	-	8,377,305	26,163,388
Physical Environment	266,457	-	-	-	3,662,493	3,928,950
Transportation	-	-	17,107,737	-	39,364	17,147,101
Economic Environment	182,812	-	-	-	6,474,847	6,657,659
Health and Human Services	6,125	3,000,531	-	-	10,422,178	13,428,834
Culture and Recreation	509,915	-	-	-	2,530,524	3,040,439
<b>Debt Service:</b>						
Principal	56,667	-	-	-	2,251,432	2,308,099
Interest	308	-	-	-	679,045	679,353
Capital Outlay	154,888	-	1,389,315	7,042,158	1,882,998	10,469,357
<b>Total Expenditures</b>	<b>43,417,792</b>	<b>3,000,531</b>	<b>18,697,156</b>	<b>7,042,158</b>	<b>37,213,954</b>	<b>109,371,589</b>
<b>Excess (Deficit) Revenues Over Expenditures</b>	<b>5,040,187</b>	<b>1,007,273</b>	<b>1,273,596</b>	<b>(8,941,047)</b>	<b>(8,182,156)</b>	<b>(7,802,147)</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds of Long Term Debt	-	-	-	-	990,768	990,768
Proceeds from Sale of Capital Assets	-	-	-	-	3,226	3,228
Transfers In	219,714	10,460	-	178,045	8,189,447	8,597,668
Transfers Out	(5,720,902)	(224,150)	(641,314)	-	(2,070,503)	(8,658,869)
<b>Total Other Financing Source (Uses)</b>	<b>(5,501,188)</b>	<b>(213,690)</b>	<b>(641,314)</b>	<b>178,045</b>	<b>7,112,936</b>	<b>934,791</b>
<b>Net Change in Fund Balance</b>	<b>(461,001)</b>	<b>793,583</b>	<b>632,282</b>	<b>(6,763,002)</b>	<b>(1,069,218)</b>	<b>(6,867,358)</b>
Fund Balance, January 1	7,046,733	3,802,420	12,258,065	5,684,463	20,028,742	49,018,422
Prior Period Adjustment	1,441,300	526,053	-	-	882,970	2,850,323
Fund Balance, January 1, as restated	8,488,033	4,328,473	12,258,065	5,684,463	20,911,712	51,868,745
Fund Balance, December 31	\$ 8,027,032	\$ 5,122,056	\$ 12,888,347	\$ (878,539)	\$ 19,842,494	\$ 45,001,389

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balance of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended December 31, 2008**

Net change in fund balances as shown on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	\$ (6,867,356)
Net Capital Asset Activity	(7,511,929)
Purchases of capital assets are reported as expenditures in the governmental funds. On the government wide statements they are reported as assets and depreciated over their estimated useful lives.	
Net Internal Service Fund Activity	329,159
Internal service funds are included in governmental activities on the statement of net assets	
Net Long-Term Debt Activity	963,147
In the governmental funds statements, proceeds of long term debt are considered revenues and debt principal payments are considered expenditures. These transactions are reported as increases and decreases in long-term debt liabilities on the government wide statements.	
Net change in deferred revenues and revenues not reportable on the modified accrual basis	(300,016)
Revenues are reported on the modified accrual basis for the governmental funds statements and on the full accrual basis for the statement of activities.	
Change in net assets as reflected in the Statement of Activities	\$ (13,386,995)

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Budgetary Comparison Statement**  
**General Fund**  
**For the Year Ended December 31, 2008**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Budgeted Fund Balance, January 1</b>	\$ 4,034,945	\$ 7,046,733	\$ 8,488,033	\$ 1,441,300
<b>Resources (in-flows)</b>				
Taxes	31,442,500	31,442,500	30,156,377	(1,286,123)
Licenses and Permits	18,500	18,500	25,440	6,940
Intergovernmental Revenue	7,422,157	7,764,318	8,380,469	616,151
Charges for Services	5,063,715	5,082,332	5,317,169	234,837
Fines and Forfeits	1,999,950	1,999,950	1,976,200	(23,750)
Interest Revenue	2,813,700	2,813,700	2,180,652	(633,048)
Miscellaneous Revenues	361,580	377,269	421,672	44,403
Transfers In	123,000	238,825	219,714	(19,111)
<b>Total Resources (in-flows)</b>	<u>49,245,102</u>	<u>49,737,394</u>	<u>48,677,893</u>	<u>(1,059,701)</u>
<b>Amounts Available for Appropriation</b>	53,280,047	56,784,127	57,165,726	381,599
<b>Charges to Appropriations (out-flows)</b>				
General Government	18,546,742	17,730,858	17,133,460	597,398
Judicial	7,249,618	7,605,589	7,321,077	284,512
Public Safety	17,746,730	18,107,684	17,786,083	321,801
Physical Environment	352,211	343,033	266,457	76,576
Economic Environment	199,216	200,305	182,812	17,493
Health and Human Services	4,200	4,200	6,125	(1,925)
Culture and Recreation	503,954	584,168	509,915	54,253
Debt Service	-	-	56,975	(56,975)
Capital Expenditures	30,000	184,864	154,888	29,976
Transfers Out	5,746,239	6,220,902	5,720,902	500,000
<b>Amount Charged to Appropriations (out-flows)</b>	<u>50,378,910</u>	<u>50,961,603</u>	<u>49,138,694</u>	<u>1,822,909</u>
<b>Budgeted Fund Balance, December 31</b>	<u>\$ 2,901,137</u>	<u>\$ 5,822,524</u>	<u>\$ 8,027,032</u>	<u>\$ 2,204,508</u>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Budgetary Comparison Statement**  
**Mental Health Fund**  
**For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>Budgeted Fund Balance, January 1</b>	\$ 2,500	\$ 13,486	\$ 4,328,473	
<b>Resources (in-flows)</b>				
General Property Taxes	280,000	280,000	270,687	(9,313)
Sales and Use Taxes	2,500,000	2,800,000	2,345,546	(254,454)
Other Taxes	4,500	4,500	5,922	1,422
Intergovernmental Revenues	1,216,372	1,249,008	196,182	(1,052,826)
Charges for Services	-	-	1,073,871	1,073,871
Interest Earnings	10,040	106,362	100,116	(6,246)
Other Revenue	10	10	15,480	15,470
Transfers In	-	-	10,460	10,460
<b>Total Resources (in-flows)</b>	<u>4,010,922</u>	<u>4,239,880</u>	<u>4,018,264</u>	<u>(221,616)</u>
<b>Amounts Available for Appropriation</b>	4,013,422	4,253,366	8,346,737	
<b>Charges to Appropriations (out-flows)</b>				
Health and Human Services	3,688,268	3,765,712	3,000,531	765,181
Transfers Out	325,154	487,654	224,150	263,504
<b>Amount Charged to Appropriations (out-flows)</b>	<u>4,013,422</u>	<u>4,253,366</u>	<u>3,224,681</u>	<u>1,028,685</u>
<b>Budgeted Fund Balance, December 31</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,122,056</u>	

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Budgetary Comparison Statement**  
**County Road Fund**  
**For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>Budgeted Fund Balance, January 1</b>	\$ 2,890,775	\$ 5,112,275	\$ 12,256,065	
<b>Resources (in-flows)</b>				
General Property Taxes	10,237,970	10,237,970	10,809,038	571,068
Timber Harvest Taxes	150,000	150,000	294,240	144,240
Excise Taxes	30,000	30,000	52,360	22,360
Licenses and Permits	368,074	368,074	83,341	(284,733)
Intergovernmental Revenues	7,915,676	8,178,176	6,881,078	(1,297,098)
Charges for Services	1,704,170	1,704,170	1,433,007	(271,163)
Interest Earnings	264,000	264,000	277,610	13,810
Other Revenue	23,815	23,815	140,078	116,263
<b>Total Resources (In-flows)</b>	<u>20,693,705</u>	<u>20,956,205</u>	<u>19,970,752</u>	<u>(985,453)</u>
<b>Amounts Available for Appropriation</b>	23,584,480	26,068,480	32,226,817	
<b>Charges to Appropriations (out-flows)</b>				
General Government	196,256	196,256	200,104	(3,848)
Transportation	18,189,206	18,338,206	17,107,737	1,230,469
Capital Expenditures	4,249,330	6,584,330	1,389,315	5,195,015
Transfers Out	949,688	949,688	641,314	308,374
<b>Amount Charged to Appropriations (out-flows)</b>	<u>23,584,480</u>	<u>26,068,480</u>	<u>19,338,470</u>	<u>6,730,010</u>
<b>Budgeted Fund Balance, December 31</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,888,347</u>	

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2008**

	Business-Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
<b>ASSETS</b>				
<u>Current Assets</u>				
Cash/Cash Equivalents	\$ 2,513,958	\$ 2,572,982	\$ 5,086,940	\$ 10,333,235
Accounts Receivable	732,066	31,074	763,140	83,227
Due From Other Funds	0	7,686	7,686	10,000
Due from Other Governments	164,555	17,316	181,871	65,805
Inventories/Prepayments	32,235	8,451	40,686	4,860,647
<b>Total Current Assets</b>	<b>3,442,814</b>	<b>2,637,509</b>	<b>6,080,323</b>	<b>15,352,914</b>
<u>Non-Current Assets</u>				
Capital Assets				
Land	448,129	191,181	639,310	-
Buildings	1,825,299	-	1,825,299	180,888
Improvements	112,935	4,444,521	4,557,456	-
Machinery and Equipment	617,777	5,969	623,746	17,484,894
Less Accumulated Depreciation	(2,367,045)	(817,139)	(3,184,184)	(9,531,948)
Construction In Progress	-	564,293	564,293	-
Unamortized Debt Issuance Costs	20,241	-	20,241	-
<b>Total Non-Current Assets</b>	<b>657,336</b>	<b>4,388,825</b>	<b>5,046,161</b>	<b>8,133,834</b>
<b>Total Assets</b>	<b>4,100,150</b>	<b>7,026,334</b>	<b>11,126,484</b>	<b>23,486,748</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<u>Current Liabilities</u>				
Accounts/Vouchers Payable	325,995	24,276	350,271	3,014,324
Due to Other Funds	72,824	-	72,824	-
Interest Payable	11,898	-	11,898	-
Accrued Wages Payable	47,018	11,525	58,543	142,295
Accrued Employee Benefits	20,556	4,640	25,196	50,719
Accrued Taxes Payable	4,404	-	4,404	1,082
Other Accrued Liabilities	350,616	-	350,616	50,000
Bonds Payable	735,000	-	735,000	-
<b>Total Current Liabilities</b>	<b>1,568,311</b>	<b>40,441</b>	<b>1,608,752</b>	<b>3,258,420</b>
<u>Non-Current Liabilities</u>				
Compensated Absences	53,527	12,429	65,956	\$168,017
Post Closure Landfill Costs	3,362,613	-	3,362,613	-
Environmental Liability	1,492,299	-	1,492,299	69,800
Bonds Payable	3,127,314	-	3,127,314	-
<b>Total Non-Current Liabilities</b>	<b>8,035,753</b>	<b>12,429</b>	<b>8,048,182</b>	<b>237,817</b>
<b>Total Liabilities</b>	<b>9,604,064</b>	<b>52,870</b>	<b>9,656,934</b>	<b>3,496,237</b>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	(3,204,980)	4,388,825	1,183,845	8,133,833
Unrestricted	(2,298,935)	2,584,640	285,705	11,856,678
<b>Total Net Assets</b>	<b>\$ (5,503,915)</b>	<b>\$ 6,973,465</b>	<b>\$ 1,469,550</b>	<b>\$ 19,990,511</b>

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 Ended December 31, 2008**

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
<u>Operating Revenues</u>				
Charges for Services	\$ 8,522,775	\$ 1,352,795	\$ 9,875,570	\$ 12,539,836
Other Operating Revenue	-	-	-	9,556,100
Total Operating Revenues	<u>8,522,775</u>	<u>1,352,795</u>	<u>9,875,570</u>	<u>22,095,936</u>
<u>Operating Expenditures</u>				
Personnel Services	1,540,255	471,169	2,011,424	3,745,405
Contractual Services	4,939,183	-	4,939,183	1,391,965
Supplies and Expenses	1,522,461	314,044	1,836,505	7,343,692
Depreciation	28,980	120,428	149,408	1,194,457
Payment to Claimants	-	-	-	8,507,731
Total Operating Expenditures	<u>8,030,879</u>	<u>905,641</u>	<u>8,936,520</u>	<u>22,183,250</u>
Operating Income (Loss)	<u>491,896</u>	<u>447,154</u>	<u>939,050</u>	<u>(87,314)</u>
<u>Non-Operating Revenue (Expenses)</u>				
Intergovernmental Revenue	231,011	35,228	266,239	5,265
Interest Revenue	71,304	67,277	138,581	137,478
Miscellaneous Revenue	8,591	243	8,834	83,261
Gain (Loss) on Disposition of Capital Assets	-	-	-	(22,810)
Interest Expense	(185,885)	-	(185,885)	-
Miscellaneous Expense	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>125,021</u>	<u>102,748</u>	<u>227,769</u>	<u>203,194</u>
Income (Loss) before Transfers	616,917	549,902	1,166,819	115,880
Transfers In	-	-	-	213,278
Transfers Out	<u>(24,431)</u>	<u>(129,644)</u>	<u>(154,075)</u>	<u>-</u>
Change in Net Assets	<u>592,486</u>	<u>420,258</u>	<u>1,012,744</u>	<u>329,158</u>
Net Assets, January 1	(4,425,102)	6,553,207	2,128,105	19,570,974
Prior Period Adjustment	(1,671,299)	-	(1,671,299)	90,379
Net Assets, January 1, as Restated	<u>(6,096,401)</u>	<u>6,553,207</u>	<u>456,806</u>	<u>19,661,353</u>
Net Assets, December 31	<u>\$ (5,503,915)</u>	<u>\$ 6,973,465</u>	<u>\$ 1,469,550</u>	<u>\$ 19,990,511</u>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2008**

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>				
Receipts from Customers	\$ 8,328,269	\$ 1,322,980	\$ 9,651,249	\$ 1,327,919
Receipts from Interfund Services Provided	10,807	14,276	25,083	23,053,309
Payments to Employees	(1,543,852)	(477,171)	(2,021,023)	(3,735,252)
Payments to Suppliers	(5,506,429)	(205,075)	(5,711,504)	(6,649,206)
Payments to Claimants	-	-	-	(7,709,390)
Payments for Interfund Services Used	(1,696,176)	(316,388)	(2,012,564)	(3,203,327)
Miscellaneous Receipts	8,591	243	8,834	83,261
Net Cash Provided (Used)	<u>(398,790)</u>	<u>338,865</u>	<u>(59,925)</u>	<u>3,167,314</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>				
Operating Grants Received	235,081	\$23,759	\$258,840	-
Transfers to Other Funds	(24,432)	(129,644)	(154,076)	-
Net Cash Provided (Used)	<u>210,649</u>	<u>(105,885)</u>	<u>104,764</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Capital Grant Received	-	-	-	5,265
Purchases of Capital Assets	-	(279,619)	(279,619)	(1,891,623)
Proceeds from Sale of Capital Assets	-	-	-	61,250
Principal Paid on Capital Debt	(710,000)	-	(710,000)	-
Interest Paid on Capital Debt	(164,075)	-	(164,075)	-
Net Cash Provided (Used)	<u>(874,075)</u>	<u>(279,619)</u>	<u>(1,153,694)</u>	<u>(1,825,108)</u>
<b>Cash Flows from Investing Activities:</b>				
Sale of Investments	-	300,000	300,000	-
Interest Earnings	71,304	67,277	138,581	137,478
Net Cash Provided	<u>71,304</u>	<u>367,277</u>	<u>438,581</u>	<u>137,478</u>
Net Change in Cash and Cash Equivalents	(990,912)	320,638	(670,274)	1,479,684
Balance, January 1	3,504,870	2,252,344	5,757,214	8,853,551
Balance, December 31	<u>\$ 2,513,958</u>	<u>\$ 2,572,982</u>	<u>\$ 5,086,940</u>	<u>\$ 10,333,235</u>

See accompanying notes to the financial statements



**SKAGIT COUNTY, WASHINGTON**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2008**

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ 491,896	\$ 447,154	\$ 939,050	\$ (87,314)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	28,980	120,428	149,408	1,194,457
Miscellaneous Receipts	8,591	243	8,834	83,261
Changes in Assets and Liabilities:				
Receivables, Net	(183,699)	(15,539)	(199,238)	2,296,811
Prepayments	(3,024)	(1,772)	(4,796)	(2,397)
Inventories	-	-	-	199,479
Accounts and Other Payables	(741,534)	(211,649)	(953,183)	(516,984)
Net Cash Provided (Used) by Operating Activities	<u>\$ (398,790)</u>	<u>\$ 338,865</u>	<u>\$ (59,925)</u>	<u>\$ 3,167,313</u>

See accompanying notes to the financial statements

**SKAGIT COUNTY, WASHINGTON**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended December 31,2008**

	Agency Funds
<b>ASSETS</b>	
Cash	\$ 29,933,676
Investments	183,783,508
Taxes Receivable	829,742
Total Assets	\$214,546,926
 <b>LIABILITIES</b>	
Warrants Payable	\$16,008,744
Custodial Accounts	198,538,182
Total Liabilities	\$ 214,546,926

See accompanying notes to the financial statements

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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**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 entities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles. The chart of accounts used by Skagit County conforms to the Budgeting, Accounting, and Reporting System (BARS) prescribed by the Washington State Office of the State Auditor.

**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 such services as law enforcement, 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.)

In determining the financial reporting entity, the County complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." Accordingly, the County reports as component units those entities for which the County appoints a voting majority of the board of directors, upon which the County is able to impose its will, or where a financial benefit or burden exists.

The Skagit County Emergency Medical Services Commission was 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 for the purpose of providing emergency medical services within the County. EMS is funded by 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.

**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 reflects 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 charges for goods and services and grants or contributions that are restricted to the program's purpose. Taxes and other items not properly included among program revenues are reported as general revenues.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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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.

**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 financial statements. Accordingly, 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 when they become 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 60 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 licenses, 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. 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 accounts for expenditures incurred in capital projects.
- The Mental Health Fund accounts for expenditures relating to support services provided to citizens with mental and developmental disabilities.

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 the payment of costs related to drainage facilities.

Additionally, the County reports the following fund types:

- Internal Service Funds account for equipment rental, insurance, and technology services provided to County departments and 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 districts and miscellaneous clearing fund activity.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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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.

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.

**Assets, Liabilities and Equity**

Cash and Cash Equivalents

Cash held in checking accounts and petty cash are reported as cash on the financial statements of the governmental funds. Cash and cash equivalents reported on the government wide and proprietary funds' statement of net assets includes all demand deposits and investments with an initial maturity of three months or less.

Investments— See Note IV

Receivables and Payables

Amounts due for the exchange of goods and services between County funds are reported as due to or due from other funds. Loans between funds are reported as interfund loans receivable or payable. 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 internal service funds have been eliminated and were not included in the government-wide statement of net assets.

Taxes Receivable consists of property taxes levied and not yet paid, along with the related interest and penalties.

Accounts Receivable consists of amounts owed from private individuals for goods or services. All receivables have been recorded net of any estimated uncollectible amounts.

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 but not yet received on investments held at the end of the year.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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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. Other 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.

Capital Assets

Capital assets include land, improvements, easements, buildings, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations. 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 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 in the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental 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. 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.

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

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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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.

Long-Term Obligations – See Note V

Fund Equity

Fund equity is recognized as fund balance in governmental fund types, and as net assets in proprietary fund types. Fund balance may be reserved or unreserved. Net assets may be subject to legal restriction for a particular purpose. Unless otherwise noted, fund balances and net assets are unreserved and unrestricted.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Total governmental fund balances as reported on the governmental funds balance sheet differs from net assets of governmental activities as reported on the statement of net assets due to the different accounting methods applied in the preparation of these statements. The governmental fund statements are presented on the modified accrual basis and the statement of net assets is presented on a full accrual basis. Also, net internal service fund activity is included in governmental activities.

Explanation of certain reconciling items reported on the reconciliation of the governmental funds balance sheet to the government wide statement of net assets:

Net Capital Assets

Total Capital Assets	\$553,745,028
Less Accumulated Depreciation	(205,241,334)
Construction in Progress	<u>2,477,062</u>
Net Capital Assets	<u>\$350,980,756</u>

Long-Term Liabilities

Bonds Payable	\$15,525,000
Unamortized Bond Issuance Costs	(370,556)
Unamortized Bond Discounts/Premiums	29,109
Loans Payable	3,799,514
Compensated Absences Liability	2,186,065
OPEB Liability	305,799
Accrued Interest Payable on Long Term Liabilities	<u>72,490</u>
Long Term Liabilities	<u>\$21,547,421</u>

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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Explanation of certain reconciling items reported on the reconciliation of the statement of revenues, expenditures, and changes in fund balances to the government wide statement of activities:

Net Capital Asset Activity

Net Capital Expenditures Subject to Capitalization	\$ 9,790,167
Depreciation Expense	(17,239,659)
Loss on Disposal of Capital Assets	<u>(62,437)</u>
Net Capital Asset Activity	<u><u>\$ (7,511,929)</u></u>

Net Long -Term Debt Activity

Proceeds of Long Term Debt	\$ (990,768)
Principal Payments	2,308,098
Amortization of Bond Discounts/Premiums	(8,408)
Amortization of Bond Issuance Costs	(26,468)
Change in Compensated Absences Liability	(13,508)
Change in OPEB Liability	<u>(305,799)</u>
Net Long -Term Debt Activity	<u><u>\$ 963,147</u></u>

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

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.

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

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:

- On or before the second Monday in July, County officials are requested to prepare estimates of revenues and expenditures for the next fiscal year.
- On or before the second Monday in August, each County official submits detailed estimates of probable revenues and expenditures for the ensuing year.
- On or before the first Tuesday in September, the preliminary annual budget is submitted to the Board of County Commissioners.



**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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- The Commissioners conduct public meetings/hearings on the proposed budget from September through October.
- The Commissioners make adjustments to the proposed budget and adopt, by resolution, a final balanced budget no later than December 31.
- Upon adoption, the final budget is available to the public.

Amending the Budget

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.

Changes to the appropriation for object classes that do not alter the total budget for a fund may be made by resolution approved by a simple majority during a public meeting.

**Deficit Fund Equity**

The following funds had deficit fund balances/net assets as of December 31, 2008:

The Facility Improvement Fund deficit was \$878,539. Financing of capital projects relied primarily on real estate excise tax revenues, which have declined due to the economic downturn.

The Hansen Creek Sub-Flood Control Zone Fund deficit was \$58,577. Operating assessments being collected from property owners in this zone will resolve the deficit by December of 2013.

The Lake Management District No. 1 Fund deficit was \$15,882. Operating assessments being collected from property owners in the district will resolve this deficit by December of 2010.

The Lake Management District No. 4 Fund deficit was \$2,863. Operating assessments being collected from property owners in the district will resolve this deficit by December of 2012.

The Solid Waste Fund deficit was \$5,503,915. This results primarily from the recording of liabilities for landfill post closure care costs and environmental remediation costs.

**IV. DETAIL INFORMATION BY TRANSACTION TYPE**

**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 total amount held in certificates of deposit and money market accounts was \$74,207,980 and the treasurer's bank balance was \$4,814,284, 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. The FDIC (Federal Depository Insurance Corporation) insures all deposits of the County up to \$100,000 and the Washington Public Deposit Protection Commission insures amounts over \$100,000.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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Investments

As required by Washington State law, all investments of Skagit County and applicable agency 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 Local Government 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 Commissioner's Chair. The State Treasurer's Local Government 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 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, 2008, the County held the following investments:

Investment Type	Fair Value	Less Than 1			
		Year Maturity	1 Year	2 Years	3 Years
Certificates of Deposit	\$ 62,578,416	\$ 37,990,729	\$ 24,273,401	\$ 100,000	\$ 214,286
Money Market	11,629,564	11,629,564	-	-	-
Treasury Notes	457,192	457,192	-	-	-
Municipal Bonds	1,026,859	305,719	-	721,140	-
U.S. Agencies	4,621,865	494,144	2,346,210	1,406,522	374,989
State Treasurer Pool	29,969,884	2,668,573	2,120,002	19,104,411	6,076,898
Banker's Acceptances	153,710,633	153,710,633	-	-	-
	2,879,384	2,879,384	-	-	-
	<u>\$ 266,873,797</u>	<u>\$ 210,135,938</u>	<u>\$ 28,739,613</u>	<u>\$ 21,332,073</u>	<u>\$ 6,666,173</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.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

As of December 31, 2008, the County's investments in U.S. Agencies in the amount of \$29,128,896 (fair value) was rated AAA by Standard & Poor's, an additional amount of \$840,988 (fair value) was rated Aaa by Moody's. Details of ratings on investments in municipal bonds and banker's acceptances are as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>Fitch</b>
<b>Municipal Bonds</b>				
Port of Vancouver, WA	\$ 200,152	AA-	A1	-
Benton County	137,666	AA	A2	-
NY Capital Appreciation	157,479	AA	Aa3	AA-
Glenview, Ill Series B	267,764	-	Aaa	-
Lynnwood PFD	237,860	AAA	Aaa	AAA
Hoboken, NJ Series B	99,698	AAA	Aaa	-
Green Bay, Wisc. Series C	150,855	AAA	Aaa	-
Multnomah Co., OR	142,741	-	Aaa	AAA
CA Taxable Stem Cell	200,782	A+	A1	A+
Kent, WA Special Event Center	564,818	AAA	-	AA-
LaCrosse, Wisc Taxable Refunding	244,682	-	A1	AA-
Douglas Co, OR School Dist	121,031	AAA	-	AA-
E-Bay, CA Reg Park Dist	385,073	-	Aa1	AA+
Saginaw Taxable Ltd.	402,272	-	A1	MG1
Genessee Co, MI	251,455	-	SP1	MG1
Port of Camas, WA	173,929	AAA	Aaa	-
State of California	202,292	A+	A1	A+
Gastonia, NC Series B	171,384	AA-	A1	AA-
Chicago, IL	306,327	AAA	Aa3	AAA
Pierce Co, WA Fire	203,605	-	Aa1-	-
<b>Total Muncpal Bonds</b>	<u><u>4,621,865</u></u>			
 Banker's Acceptances	 \$ 2,879,384	 A1	 A1	 A+

The County also carried investments in registered warrants and the Washington State Local Government Investment Pool, which are unrated.

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 one 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. As of December 31, 2008, the investment in the Washington State Local Government Investment Pool was limited to 65%, this was modified by resolution on March 16<sup>th</sup>, 2009, to allow investment in excess of 65% when there are no other viable alternatives. At year end, the County had no investment in a single issuer that was greater than 5% of total investments.

Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied and become an enforceable lien on January 1<sup>st</sup> of each year. Collection of taxes is authorized on February 15<sup>th</sup>, with installments due on April 30<sup>th</sup> and October 31<sup>st</sup>. On May 31<sup>st</sup> the assessed value of property is established for the following year's levy. Assessed value is considered to be 100% of market value.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

Property taxes are recorded as a receivable when levied, offset by deferred revenue. Revenue is recognized when the taxes are collected. Refunds of taxes are recorded as reductions of revenue when they are measurable and due to be issued. 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:

- 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.
- 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.
- The County may voluntarily levy taxes below the legal limit. Special levies approved by the voters are not subject to the above limitations.

2008 tax levy information is as follows:

Year/Entity	Levy In Dollars Assessed Per Thousand	Total Value	Levy
<b>2008</b>			
County	\$ 1.2097	\$ 16,166,682,507	\$ 19,556,836
Medic 1 Services	0.2290	16,148,479,615	3,698,002
Roads	1.4973	8,004,170,403	11,984,644
Conservation Futures	0.0429	16,166,682,507	693,551

The County tax rate includes a levy for general governmental services and special revenue assessments.

The County is 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 land development rights for preservation purposes.

**B. Receivables**

Governmental funds report revenues as deferred if they are not available to liquidate liabilities of the current period or are not yet earned. Detail of deferred revenue balances as of December 31, 2008 is as follows:

	Unavailable	Unearned	Total
Property Taxes Receivable (General Fund)	\$700,747	\$ -	\$700,747
Property Taxes Receivable (Road Fund)	320,540	-	320,540
Property Taxes Receivable (Mental Health Fund)	9,908	-	9,908
Property Taxes Receivable (Other Governmental Funds)	171,150	-	171,150
Revenue earned but not yet available	1,293,722	-	1,293,722
Grants received prior to meeting all eligibility requirements	-	129,447	129,447
Contributions received for future services	-	5,000	5,000
Total Deferred Revenue for Governmental Funds	<u>\$2,496,066</u>	<u>\$134,447</u>	<u>\$2,630,513</u>

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

**C. Interfund Receivables, Payables and Transfers**

Details of interfund payable/receivable balances as of December 31, 2008 are as follows:

Due to Other Funds	Due from Other Funds				Total
	General Fund	Other Governmental Funds	Internal Service Funds	Drainage Utility	
Mental Health	\$21,821	\$ -	\$ -	\$ -	\$21,821
Facility Improvement	-	-	10,000	-	10,000
Non-Major Governmental Funds	76,561	-	-	7,686	84,247
Solid Waste	-	72,824	-	-	72,824
Total	\$98,382	\$72,824	\$10,000	\$7,686	\$188,892

These balances are the result of transactions involving the exchange of goods and services in the ordinary operations of the respective funds.

Interfund loans have been made to provide cash flows for the operations of the receiving funds. Details of interfund loans are as follows:

Borrowing Fund	Lending Fund	Balance 1/1/2008	New Loans	Repayment	Balance 12/31/2008
Clean Water Program	General Fund	\$279,000	\$6,000	\$285,000	\$ -
Britt Slough Flood Control	General Fund	-	44,000	-	44,000
Hansen Creek Sub Flood	General Fund	75,000	-	19,000	56,000
Lake Management No. 1	General Fund	-	56,500	40,000	16,500
Lake Management No. 2	General Fund	15,000	-	15,000	-
Lake Management No. 4	General Fund	90,000	2,000	17,000	75,000
Debt Service Fund	Edison Clean Water District	-	3,000	-	3,000
Facility Improvement	Capital Improvement	-	431,000	-	431,000
	Total	\$459,000	\$542,500	\$376,000	\$625,500

Interfund transfers represent subsidies and contributions provided to the receiving fund. Most transfers from the general fund are for the purposes of ordinary operations and debt service. Transfers out of non-major governmental funds are generally for debt service and capital project funding. Details of 2008 transfers are as follows:

Transfers Out	Transfers In					Total
	General Fund	Mental Health	Facility Improvement	Internal Service	Non-Major Governmental	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 5,720,902	\$ 5,720,902
Mental Health	218,879	-	-	-	5,271	224,150
County Roads	-	-	-	139,113	502,201	641,314
Non-Major Governmental	835	10,460	178,045	-	1,881,163	2,070,503
Solid Waste	-	-	-	24,431	-	24,431
Drainage Utility	-	-	-	49,734	79,911	129,645
Total	\$ 219,714	\$ 10,460	\$ 178,045	\$ 213,278	\$ 8,189,448	\$ 8,810,945

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**D. Capital Assets**

Summarized capital asset transactions for governmental activities are as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities</b>				
Capital assets, Non-depreciable				
Land	\$17,410,896	\$964,200	\$ -	\$18,375,096
Development rights	8,105,692	723,677	-	8,829,370
Capital asset held for resale	-	392,956	-	392,956
Construction in progress	-	2,477,062	-	2,477,062
	<u>25,516,588</u>	<u>4,557,896</u>	<u>-</u>	<u>30,074,484</u>
Depreciable Capital Assets				
Buildings	42,952,578	3,409,323	63,600	46,298,301
Improvements	6,946,649	309,126	-	7,255,775
Machinery and equipment	20,789,639	2,373,756	773,167	22,390,229
Infrastructure	466,554,535	1,375,713	61,165	467,869,083
	<u>537,243,401</u>	<u>7,467,918</u>	<u>897,932</u>	<u>543,813,387</u>
Less accumulated depreciation:				
Buildings	16,465,061	1,042,009	45,792	17,461,278
Improvements	3,385,143	304,635	-	3,689,778
Machinery and equipment	13,060,773	1,531,528	669,687	13,922,614
Infrastructure	164,179,623	15,555,945	35,956	179,699,612
	<u>197,090,601</u>	<u>18,434,117</u>	<u>751,435</u>	<u>214,773,282</u>
Total Net Depreciable Capital Assets	<u>340,152,800</u>	<u>(10,966,199)</u>	<u>146,497</u>	<u>329,040,105</u>
Total Net Capital Assets	<u>\$365,669,388</u>	<u>\$6,408,303</u>	<u>\$146,497</u>	<u>\$359,114,589</u>

Depreciation expense by function for governmental activities is as follows:

General Governmental Services	\$1,373,309
Public Safety	60,927
Physical Environment	8,909
Transportation	16,954,353
Economic Environment	1,959
Mental and Physical Health	2,796
Culture and Recreation	31,863
Total governmental activities depreciation expense	<u>\$18,434,116</u>

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Summarized capital asset transactions for business type activities are as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business - Type Activities</b>				
Capital assets, Non-depreciable				
Land	\$639,309	\$ -	\$ -	\$639,309
Construction in progress	751,347	162,989	350,042	564,293
	<u>1,390,656</u>	<u>162,989</u>	<u>350,042</u>	<u>1,203,603</u>
Depreciable Capital Assets				
Buildings	1,825,299	-	-	1,825,299
Improvements	4,090,784	466,671	-	4,557,455
Machinery and equipment	623,746	-	-	623,746
	<u>6,539,829</u>	<u>466,671</u>	<u>-</u>	<u>7,006,500</u>
Less accumulated depreciation:				
Buildings	1,761,411	15,162	-	\$1,776,573
Improvements	733,747	125,593	-	859,341
Machinery and equipment	539,618	8,653	-	548,271
	<u>3,034,776</u>	<u>149,408</u>	<u>-</u>	<u>3,184,185</u>
Total Net Depreciable Capital Assets	3,505,053	317,263	-	3,822,315
Total Net Capital Assets	<u>\$4,895,709</u>	<u>\$480,252</u>	<u>\$350,042</u>	<u>\$5,025,918</u>

**V. LONG TERM LIABILITIES**

Skagit County's long-term debt liabilities include general obligation bonds and loans from the State of Washington.

For the proprietary funds and on the government-wide financial statements, 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. Governmental funds recognize bond premiums, discounts and issuance costs in period that they are incurred. Proceeds of debt are 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, including those withheld from proceeds, are reported as debt service expenditures.

Detail of general obligation bonds outstanding as of December 31, 2008 is as follows:

<u>Description</u>	<u>Balance</u>
In 1997 bonds were issued in the amount of \$875,000 to finance the purchase of an office building and the renovation of an existing building. Repayment has been financed by lease-purchase agreements with non-profit social service agencies. Principal payments are due annually on June 1, interest payments are due on June 1 and December 1. The interest rates range from 4.10% for 1999 maturities to 5.20% for maturities in 2013. The bonds are scheduled to mature June 1, 2013. Principal payments of \$65,000 and interest payments of \$20,092 were made in 2008.	\$365,000
In 2000 bonds were issued in the amount of \$8,000,000 to fund grants to communities within the County to develop and construct public facility projects. Repayment is financed by the imposition of a distressed county sales and use tax. Principal payments are due annually on June 1, interest payments are due on June 1 and December 1. The majority of the outstanding balance was refunded in 2007, the final payment on the remaining issues is due in 2009. Principal payments of \$290,000 and interest payments of \$29,750 were made in 2008.	305,000



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<u>Description</u>	<u>Balance</u>
In 2003 bonds were issued in the amount of \$5,340,000 to finance the acquisition and renovation of a building to house County offices, and to refund 1993 bonds. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 2.00% for 2003 maturities to 4.10% for maturities in 2017. Principal payments of \$150,000 and interest payments of \$62,212 were made in 2008.	1,650,000
In 2005 bonds were issued in the amount of \$5,475,000. \$160,000 of the proceeds were used to acquire land for county facilities. This portion of the issue is being serviced by general government revenues. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rate ranges from 3.00% for 2005 maturities to 3.75% for maturities in 2013. Principal of \$15,000 and interest payments of \$4,050 were made in 2008.	100,000
In 2006 bonds in the amount of \$7,610,000 were issued to acquire land, construct county facilities and for other capital purposes. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 3.75% on 2006 maturities to 4.0% for maturities in 2026. Principal payments of \$270,000 and interest payments of \$283,697 were made in 2008.	7,110,000
In 2007 bonds were issued in the amount of \$6,115,000 to refund a portion of the 2000 Bond issue. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 3.875% on 2007 maturities to 4.00% for maturities in 2022. Principal payments of \$40,000 and interest payments of \$235,503 were made in 2008.	5,995,000
Total bonds payable at December 31, 2008 for governmental activities	<u>\$15,525,000</u>
Proceeds in the amount of \$5,315,000 from the 2005 bond issue were used to refund the callable maturities of the 1996 bond issue. The proceeds of the 1996 issue were used for purposes relating to solid waste disposal and the 2005 refunding bonds are being serviced by the solid waste fund. Principal payments are due annually on December 1, interest payments are due on June 1 and December 1. The interest rates range from 3.00% on 2005 maturities to 3.75% for maturities in 2013. Principal payments of \$710,000 and interest payments of \$164,075 were made in 2008.	\$3,960,000
Total bonds payable at December 31, 2008 for business-type activities	<u>\$3,960,000</u>

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

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
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	1,015,000	459,385	850,000	31,875
2014-2018	4,900,000	1,729,260	-	-
2019-2023	3,890,000	823,812	-	-
2024-2026	2,020,000	164,315	-	-
Totals	<u>\$15,525,000</u>	<u>\$5,381,208</u>	<u>\$3,960,000</u>	<u>\$444,600</u>



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**Refunded Bonds**

In 2007 the County refunded a portion of the 2000 bond issue using proceeds from the 2007 bond issue. These proceeds were placed in an irrevocable trust to fund all future payments on the 2000 bonds. Accordingly, those 2000 bonds are considered to be defeased and the liability for them is not included in the 2008 financial statements. As of the December 31, 2008 the balance of the defeased bonds outstanding is \$5,735,000.

**Loans Payable**

Detail of loans payable as of December 31, 2008 is as follows:

<u>Description</u>	<u>Balance</u>
Payable to the State of Washington Department of Ecology Water Pollution Control Revolving Fund pursuant to a 1997 loan agreement. The term is 20 years and no interest is due. Principal payments of \$17,768 were made in 2008.	\$186,566
Payable to the State of Washington Department of Ecology Water Pollution Control Revolving Fund pursuant to a 2000 loan agreement. The term is 20 years and no interest is due. Principal payments of \$2,948 were made in 2008.	44,215
Payable to the State of Washington Community Economic Revitalization Board pursuant to a 2001 loan agreement. The term is 20 years and no interest is due. Principal payments of \$56,667 were made in 2008.	736,667
Payable to the State of Washington Department of Ecology pursuant to a 2005 loan agreement. The term is 20 years at 1.5% interest. Principal payments of \$70,564 and interest payments of \$21,065 were made in 2008.	1,474,840
Payable to the State of Washington Department of Ecology pursuant to a 2007 loan agreement. Payments are to begin in 2012. The interest rate is 2.6% and the term is 20 years.	1,195,351
Total loans payable at December 31, 2008 for governmental activities	<u><u>\$3,637,639</u></u>

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2009	\$147,081	\$21,931
2010	148,133	20,878
2011	149,202	19,809
2012	174,015	37,569
2013	199,774	54,383
2014-2018	1,035,648	235,141
2019-2023	908,559	168,940
2024-2028	649,975	96,458
2028-2031	225,252	30,190
	<u><u>\$3,637,639</u></u>	<u><u>\$685,299</u></u>

**Debt Limitation**

State law places certain restrictions on the County's ability to issue general obligation bonds. Without an authorizing vote, limited tax general obligation bonds may be issued in an amount up to 1.5% of the assessed valuation of real property within the county. Unlimited tax general obligation bonds may be

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issued up to 2.5% of the assessed valuation with voter approval. No combination of limited and unlimited tax bonds may exceed 2.5% of the assessed valuation.

At December 31, 2008, the county's remaining capacity for non-voted debt was \$243,174,107. Additional debt capacity with an authorizing vote is \$168,682,002.

**Changes in Long-Term Liabilities**

Details of changes in long term liabilities for the year ended December 31, 2008, is as follows:

	<b>Beginning Balance</b>	<b>New Issue</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
Bonds Payable					
General Obligation Bonds	\$16,355,000	\$ -	\$830,000	\$15,525,000	\$870,000
Add: Net Unamortized Discounts/Premiums	29,573	-	463	29,110	-
Total Bonds Payable	16,384,573	-	830,463	15,554,110	870,000
Loans Payable	4,124,968	990,768	1,478,098	3,637,638	147,081
Note Payable		20,441	7,015	13,426	6,517
Compensated Absences	2,384,097	4,149,502	4,179,517	2,354,081	-
OPEB Liability	-	305,799	-	305,799	-
Environmental Liability	-	119,800	-	119,800	50,000
Total Long-Term Liabilities	\$22,893,638	\$5,586,310	\$6,495,093	\$21,984,855	\$1,073,598

**Changes in Long-Term Liabilities**

	<b>Beginning Balance</b>	<b>New Issue</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Business-Type Activities:</b>					
Bonds Payable					
General Obligation Bonds	\$4,670,000	\$ -	\$710,000	\$3,960,000	\$735,000
Add: Net Unamortized Discounts/ Premiums	20,886	-	3,481	17,405	-
Less: Unamortized Refunding Costs	(138,110)	-	(23,018)	(115,092)	-
Total Bonds Payable	4,552,776	-	690,463	3,862,313	735,000
Compensated Absences	68,931	133,731	136,706	65,956	-
Post Closure Landfill Costs	3,649,650	-	115,421	3,534,229	171,616
Environmental Liability	-	1,671,299	-	1,671,299	179,000
Total Long-Term Liabilities	\$8,271,357	\$1,805,030	\$942,590	\$9,133,797	\$1,085,616

For governmental activities, the General Fund or the respective special revenue fund generally liquidates compensated absences.

**VI. PENSION AND OTHER BENEFIT PLANS**

Substantially all Skagit County's full-time and qualifying part-time employees participate in a retirement plan administered by the Washington State Department of Retirement Systems. The Department of Retirement Systems (DRS) issues a publicly available comprehensive annual financial report (CAFR). The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communication Unit,

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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: 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 the 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 retirement 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 receive 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

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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 receive 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

PERS members in judicial service on December 31, 2006 and January 1, 2007, were given the option of joining the JBM Program. 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 a 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 1,308 participating employers in PERS. Details of PERS membership as of the latest actuarial valuation date of June 30, 2008 is as follows:

<u>Description</u>	<u>Members</u>
Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to but not yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Non-vested	52,575
<b>Total</b>	<u><u>255,849</u></u>

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

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contribution rates for Plan 2 and the employer contribution rates 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, 2008, were as follows:

<b>Contributor</b>	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	8.31%	8.31%	8.31%**
Employee	6.00%	5.45%	***

\*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.

Rates for members participating in JBM are as follows:

<b>Contributor</b>	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	8.31%	8.31%	8.31%**
Employee	12.26%	13.63%	***

\*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 its employees have made the required contributions to the plan. Details of these contributions for the years ending December 31 are as follows:

<b>Year</b>	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
2008	\$158,239	\$1,815,233	\$468,963
2007	144,028	1,345,454	304,255
2006	86,701	700,371	148,519

**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, along 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.

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LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and contributions by the state. 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:

<u>Service Term</u>	<u>Percent of Final Average Salary</u>
20 or more years	2.0%
More than 10 years but less than 20 years	1.5%
More than 5 years 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. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after the 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 461 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of June 30, 2008:

<u>Description</u>	<u>Amount</u>
Retirees and Beneficiaries Receiving Benefits	9,085
Terminated Plan members Entitled to but not yet Receiving Benefits	633
Active Plan Members Vested	12,904
Active Plan Members Non-vested	3,708
Total	<u>26,330</u>

Funding Policy

Effective July 1, 2000, Plan 1 employers and employees will make no contributions as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary. 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 mandated 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 funding arrangement is not mandated by the state constitution and the liability 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, 2008, were as follows:

<u>Contributor</u>	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.16%	5.46%
Employee	0.00%	8.83%



**Skagit County, Washington**  
**Notes to the Financial Statements**  
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\*The employer rates include the employer administrative expense fee currently set at 0.16%

Both Skagit County and its employees made the required contributions to the plan. Skagit County contributions for the years ending December 31 were as follows:

<u>Year</u>	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2008	\$96	\$203,279
2007	100	189,021
2006	107	171,983

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

Plan Description

PSERS, established July 1, 2006 is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

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.

There are 71 participating employers in PSERS. There were 2,755 active non-vested plan members as of the latest actuarial valuation date of June 30, 2008.

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.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
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The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008 were as follows:

<u>Contributor</u>	<u>PSERS Plan 2</u>
Employer*	9.43%
Employee	6.57%

\*The employer rate includes an employer administrative expense fee of 0.16%

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

<u>Year</u>	<u>PSERS Plan 2</u>
2008	\$124,059
2007	85,209
2006	15,991

**D. Other Post Employment Benefit Plans (OPEB)**

State law requires the County to pay medical and nursing care costs for LEOFF Plan 1 retirees. These costs have been paid as incurred, with no provision for advance funding. Effective for the County's 2008 reporting year, GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, requires other post employment benefits (OPEB) expenses

to be accrued based on a computed annual required contribution (ARC). ARC represents the current period's service cost and the amount necessary to amortize the unfunded actuarial liability. Accordingly, a liability in the amount of \$305,799 was recorded at December 31, 2008 for the net OPEB obligation.

The County's ARC for OPEB was \$465,505, based on a 30 year amortization period. Actual OPEB expense for 2008 amounted to \$159,706 resulting in the net OPEB obligation of \$305,799. The actual expense constitutes 34% of the ARC. The County's actuarial accrued liability (AAL) of \$4,574,084 was unfunded as of December 31, 2008.

The alternative measurement method permitted under GASB Statement No. 45 was used in computing the actuarial information. A single retirement age of 56.22 was assumed for all active members in order to determine the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF Plan 1 termination and mortality rates used in the September 30, 2006 actuarial valuation report issued by the Office of the Washington State Actuary (OSA). Healthcare costs and trends were determined by Milliman, Inc., actuarial consultants, and used by the OSA in a statewide LEOFF Plan 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The projected unit credit method was used to determine the actuarial accrued liability. These assumptions are considered individually and collectively reasonable for the purposes of this valuation.

**VII. RISK MANAGEMENT**

**Liability Insurance**

Skagit County is a member of the Washington Counties Risk Pool ("Pool"). State law authorizes governmental entities to form a pool for the purchasing of insurance, self-insurance, or contracting for risk management services.

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-



**Skagit County, Washington**  
**Notes to the Financial Statements**  
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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 self-insured retention to the maximum limits of each policy. Skagit County has elected a deductible of \$500,000.

Any deficits of the Pool are financed through retroactive assessments of the responsible members. The Pool had no reassessments receivable balance due as of December 31, 2008.

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.

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.

Claim settlements and loss expenses are accrued in the County’s 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 primarily from interfund transfers for insurance premiums. In addition, an insurance reimbursement maybe received 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 details the current year’s and the prior two year’s claims liability activity:

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Current Year Claims &amp; Changes in Estimate</b>	<b>Claim Payments</b>	<b>Year End Balance</b>
2006	\$135,986	\$329,500	\$183,570	\$281,916
2007	281,916	446,936	301,977	426,875
2008	426,875	770,534	128,020	1,069,389

**Other Insurance**

Employee on-the-job injuries are covered by industrial insurance through the State of Washington Department of 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. The experience modification multiplier for 2006 was 1.3977, 1.1282 in 2007, and 1.1825 in 2008.

Skagit County is self-insured for unemployment claims. These claims are processed by the Washington State Department of Employment Security and the county is billed for them on a quarterly basis. The County has established an Unemployment Compensation Fund which charges other County funds based

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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on estimates of future claims, and pays the claims when they are billed. The Unemployment Compensation Fund had net assets of \$433,722 at December 31, 2008.

The County is self-insured for dental insurance claims. Washington Dental Services serves as the third party administrator and bills the County for claims paid. Administrative fees and charges paid to Washington Dental Service totaled \$92,067 for 2008. Dental claims activity for 2008 and the preceding two years is as follows:

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Current Year Claims &amp; Changes in Estimate</b>	<b>Claim Payments</b>	<b>Year End Balance</b>
2006	\$105,030	\$687,228	\$688,920	\$103,338
2007	103,338	733,387	726,892	109,833
2008	109,833	728,401	728,899	109,335

The County is self-insured for medical insurance coverage for eligible employees. The claims processing is administered by Trusteed Plans. The County's health benefits broker, Wells Fargo, determines the premiums charged to County funds. These amounts are transferred to the Insurance Services Fund, which pays the amount billed by the claims processor. An insurance policy is in place to cover claims in excess of \$200,000 per claimant. Administrative fees and charges paid to Trusteed Plans totaled \$341,729 for 2008. Medical claims activity for 2008 and the preceding two years is as follows:

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Current Year Claims &amp; Changes in Estimate</b>	<b>Claim Payments</b>	<b>Year End Balance</b>
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
2008	1,186,426	7,008,799	6,782,255	1,412,970

**VIII. COMMITMENTS, CONTINGENCIES AND LITIGATION**

Amounts received or receivable from grantor agencies are subject to audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by a grantor is expected 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. The District has authorized the issuance and sale of limited sales tax obligation bonds in the 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. As of December 31, 2008, there have been no loans made by the County to the Public Facilities District.

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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**Leasing Commitments**

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2008 are as follows:

Year	Rental Payments Due
2009	\$213,814
2010	186,686
2011	92,637
2012	42,615
2013	1,419
Total	<u>\$537,171</u>

2008 rent expense for all operating leases, except those with terms of a month or less that were not renewed was \$320,007.

**Construction**

At December 31, 2008, the County had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

	Total Contracts	Expended to 12/31/08	Balance Unexpended
<b>Governmental Activities</b>			
Facilities	\$ 6,395,024	\$ 3,105,155	\$ 3,289,869
Parks	72,827	55,803	17,024
Road Fund	1,952,989	1,024,137	928,852
Total Governmental Activities	<u>\$ 8,420,840</u>	<u>\$ 4,185,095</u>	<u>\$ 4,235,745</u>

**Landfill 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. Accordingly, a liability for post closure costs in the amount of \$3,534,229 is reported in the solid waste fund at December 31, 2008.

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

**Liabilities for Pollution Remediation Obligations**

In accordance with Governmental Accounting Standards Board Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", which became effective for the 2008 reporting year, liabilities for environmental cleanup obligations were recorded in the Solid Waste Fund and the Equipment Rental and Revolving Fund.

The Solid Waste Fund recognized a liability of \$847,344 for the Whitmarsh Landfill site and \$823,955 for the Sinnes Road Landfill site. Skagit County has been named a potentially liable party under the Washington State Model Toxics Control Act for the cost of environmental cleanup at the Whitmarsh site. In 2008 the County entered into an agreed order, along with other responsible parties, to conduct a remedial investigation, feasibility study, and develop a cleanup plan. Testing at the site of the Sinnes

**Skagit County, Washington**  
**Notes to the Financial Statements**  
**December 31, 2008**

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Road Landfill has revealed groundwater contamination in excess of state standards. The County is currently developing a remediation plan for this site.

The Equipment Rental and Revolving Fund recognized a liability of \$119,800 for costs relating to the monitoring and potential cleanup of soil and water contamination at the site of underground fuel storage tanks.

These liabilities were computed using the expected cash flow technique, with probabilities assigned to a range of potential costs. They are recorded net of possible insurance recoveries. The actual future costs may be higher due to inflation, changes in technology, or changes in environmental laws and regulations.

**IX. PRIOR PERIOD ADJUSTMENTS**

The General Fund – A grant billing receivable dating to 2007 in the amount of \$19,919 was disallowed by the grantor. An adjustment to reclassify 2007 sales tax revenues in the amount of \$1,461,219 was made in order to report these revenues in the period in which they were earned. They had previously been reported as collected.

The Mental Health Fund – 2007 revenue in the amount of \$79,492 was received in 2008, but had not been accrued as of December 31, 2007. An adjustment to reclassify 2007 sales tax revenues in the amount of \$446,561 was made in order to report these revenues in the period in which they were earned. They had previously been reported as collected.

The Convention Center Fund – An adjustment to reclassify 2007 hotel/motel tax revenues in the amount of \$33,519 was made in order to report these revenues in the period in which they were earned. They had previously been reported as collected.

The Clean Water Program Fund – Revenue in the amount of \$67,181 was reported error in 2007. This revenue should have been recorded in the Lake Management District No. 4 Fund.

The Communication System Fund - An adjustment to reclassify 2007 tax revenues in the amount of \$445,818 was made in order to report these revenues in the period in which they were earned. They had previously been reported as collected.

Lake Management District No. 4 Fund - To correct for revenue in the amount of \$67,181 which was posted in error to the Clean Water Program Fund in 2007.

The Distressed Counties Public Facilities Fund - An adjustment to reclassify 2007 sales tax revenues in the amount of \$403,633 was made in order to report these revenues in the period in which they were earned. They had previously been reported as collected.

The Solid Waste Fund – A liability in the amount of \$1,671,299 was recorded for environmental pollution remediation in accordance with Governmental Accounting Standards Board Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. See Note VIII Liabilities for Pollution Remediation Obligations.

The Unemployment Compensation Fund – The liability for fourth quarter 2007 claims in the amount of \$23,027 was not recorded at December 31, 2007.

The Equipment Rental and Revolving Fund - A liability in the amount of \$119,800 was recorded for environmental pollution remediation in accordance with Governmental Accounting Standards Board

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. See Note VIII Liabilities for Pollution Remediation Obligations.

**Skagit County, Washington**  
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The Central Services Fund – Receivables for 2007 services provided in the amount of \$233, 206 were not recorded at December 31, 2007.

Governmental activities on the government wide statements – Net assets were adjusted for the \$31,125 balance due at December 31, 2007, on a previously unrecorded real estate purchase contract. An adjustment of \$63,620 was made to record interest payable on bonds and loans payable at December 31, 2007. Also, revenue in the amount of \$117,884 should have been reported as deferred on the government wide financial statements at December 31, 2007, and an adjustment was made accordingly.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b>DEPARTMENT OF AGRICULTURE</b>						
<b>NORTHWEST REGIONAL COUNCIL</b>						
SENIOR FARMERS MARKET NUTRITION PROGRAM	10.576	08009-NUTR(1) /C20080073	6,176	0	6,176	
		<b>SUB-TOTAL:</b>	<b>\$6,176</b>	<b>\$0</b>	<b>\$6,176</b>	
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
CONSERVATION RESERVE PROGRAM	10.069	CRP 2003 054	0	425	425	
CONSERVATION RESERVE PROGRAM	10.069	CRP 2003 055	0	171	171	
CONSERVATION RESERVE PROGRAM	10.069	CRP 2005 072	0	4,080	4,080	
CONSERVATION RESERVE PROGRAM	10.069	CRP 2008 075	0	13,913	13,913	
SCHOOLS AND ROADS - GRANTS TO STATES	10.665	USC TITLE 16, SEC 500	0	516,089	516,089	
SCHOOLS AND ROADS - GRANTS TO STATES	10.665	USC TITLE 16, SEC 500	0	85,579	85,579	
FARM AND RANCH LANDS PROTECTION PROGRAM	10.913	C20060365	0	275,275	275,275	2
		<b>SUB-TOTAL:</b>	<b>\$0</b>	<b>\$895,533</b>	<b>\$895,533</b>	
<b>WASHINGTON STATE DEPARTMENT OF HEALTH</b>						
SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN	10.557	C14962 (12)	65,640	0	65,640	4 (b)
SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN	10.557	C14962 (12)	1,303	0	1,303	4 (b)
WIC FARMERS' MARKET NUTRITION PROGRAM (FMNP)	10.572	C14962 (12)	139	0	139	4 (b)
		<b>SUB-TOTAL:</b>	<b>\$67,082</b>	<b>\$0</b>	<b>\$67,082</b>	
<b>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</b>						

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b><u>DEPARTMENT OF AGRICULTURE</u></b>						
<b><u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</u></b>						
NATIONAL SCHOOL LUNCH PROGRAM	10.555	YEARLY	21,061	0	21,061	
			<b>SUB-TOTAL:</b>	<b>\$0</b>	<b>\$21,061</b>	
			<b>DEPARTMENT OF AGRICULTURE TOTAL:</b>	<b>\$895,533</b>	<b>\$989,852</b>	
<b><u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>						
<b><u>WASHINGTON STATE DEPARTMENT OF COMMUNITY, TRADE &amp; ECONOMIC DEVELOPMENT</u></b>						
COMMUNITY DEVELOPMENT BLOCK GRANTS - STATES PROGRAM	14.228	05-64005-048 /C20060147	6,000	0	6,000	
			<b>SUB-TOTAL:</b>	<b>\$0</b>	<b>\$6,000</b>	
			<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT TOTAL:</b>	<b>\$0</b>	<b>\$6,000</b>	
<b><u>DEPARTMENT OF JUSTICE</u></b>						
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>						
GRANTS TO ENCOURAGE ARREST POLICIES & ENFORCEMENT OF PROTECTION ORDERS	16.590	2004-WE-AX-0079 /C20080586	0	63,994	63,994	
GRANTS TO ENCOURAGE ARREST POLICIES & ENFORCEMENT OF PROTECTION ORDERS	16.590	2004-WE-AX-0079 /C20080586	0	163,281	163,281	
GRANTS TO ENCOURAGE ARREST POLICIES & ENFORCEMENT OF PROTECTION ORDERS	16.590	2005-WE-AX-0132 /C20070587	0	5,927	5,927	
STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	16.606	2008-F3175-WA-AP (2009-AP-BX-0174)	0	58,508	58,508	
BULLETPROOF VEST PARTNERSHIP PROGRAM	16.607	(www.vests.ojp.gov) FY 2008	0	2,737	2,737	2
			<b>SUB-TOTAL:</b>	<b>\$294,446</b>	<b>\$294,446</b>	
			<b>WASHINGTON STATE DEPARTMENT OF COMMUNITY, TRADE &amp; ECONOMIC DEVELOPMENT</b>			

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b><u>DEPARTMENT OF JUSTICE</u></b>						
<b><u>WASHINGTON STATE DEPARTMENT OF COMMUNITY, TRADE &amp; ECONOMIC DEVELOPMENT</u></b>						
VIOLENCE AGAINST WOMEN FORMULA GRANT	16.588	F07-31103-030 /C20070588	12,333	0	12,333	2
VIOLENCE AGAINST WOMEN FORMULA GRANT	16.588	F08-31103-073 /C20080550	4,589	0	4,589	2
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	16.738	M07-62201014	128,581	0	128,581	2
		<b>SUB-TOTAL:</b>	<b>\$145,503</b>	<b>\$0</b>	<b>\$145,503</b>	
<b><u>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</u></b>						
JUVENILE ACCOUNTABILITY BLOCK GRANT	16.523	0663-98417 /C20070141/A20080168	8,494	0	8,494	2
JUVENILE JUSTICE AND DELINQUENCY PREVENTION - ALLOCATION TO STATES	16.540	I-100-00507	9,889	0	9,889	4 (d)
JUVENILE JUSTICE AND DELINQUENCY PREVENTION - ALLOCATION TO STATES	16.540	I-100-00508	11,117	0	11,117	4 (d)
		<b>SUB-TOTAL:</b>	<b>\$29,501</b>	<b>\$0</b>	<b>\$29,501</b>	
<b><u>WASHINGTON STATE PATROL</u></b>						
DOMESTIC CANNABIS ERADICATION / SUPPRESSION	16.2008 111	C081644FED /C20080381	17,839	0	17,839	
		<b>SUB-TOTAL:</b>	<b>\$17,839</b>	<b>\$0</b>	<b>\$17,839</b>	
		<b>DEPARTMENT OF JUSTICE TOTAL:</b>	<b>\$192,843</b>	<b>\$294,446</b>	<b>\$487,289</b>	
<b><u>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION</u></b>						
<b><u>WASHINGTON ASSOC OF SHERIFFS &amp; POLICE CHIEFS</u></b>						
STATE AND COMMUNITY HIGHWAY SAFETY	20.600	N/A	5,600	0	5,600	
		<b>SUB-TOTAL:</b>	<b>\$5,600</b>	<b>\$0</b>	<b>\$5,600</b>	



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION</b>						
<b>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION</b>						
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6016	45,345	0	45,345	2
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6104	23,650	0	23,650	2
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6194	113,905	0	113,905	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6216	304,795	0	304,795	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6320	54,325	0	54,325	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6522	77,314	0	77,314	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6651	2,316	0	2,316	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6688	71,704	0	71,704	2
HIGHWAY PLANNING AND CONSTRUCTION	20.205	LA6689	14,123	0	14,123	2
			<b>SUB-TOTAL:</b>	<b>\$0</b>	<b>\$707,477</b>	
<b>WASHINGTON TRAFFIC SAFETY COMMISSION</b>						
SAFETY BELT PERFORMANCE GRANTS	20.600	N/A	1,385	0	1,385	
STATE AND COMMUNITY HIGHWAY SAFETY	20.600	N/A	14,204	0	14,204	
ALCOHOL TRAFFIC SAFETY AND DRUNK DRIVING PREVENTION INCENTIVE GRANTS	20.601	C20080403	1,994	0	1,994	
SAFETY BELT PERFORMANCE GRANTS	20.609	N/A	4,329	0	4,329	2
			<b>SUB-TOTAL:</b>	<b>\$0</b>	<b>\$21,912</b>	
<b>WASHINGTON STATE DEPARTMENT OF TRANSPORTATION TOTAL:</b>				<b>\$0</b>	<b>\$734,988</b>	

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b><u>ENVIRONMENTAL PROTECTION AGENCY</u></b>						
<b><u>WASHINGTON STATE DEPARTMENT OF ECOLOGY</u></b>						
ASSESSMENT AND WATERSHED PROTECTION PROGRAM GRANTS	66.480	G0800491 /C20080218	11,185	0	11,185	
		<b>SUB-TOTAL:</b>	<b>\$11,185</b>	<b>\$0</b>	<b>\$11,185</b>	
<b><u>WASHINGTON STATE DEPARTMENT OF HEALTH</u></b>						
CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS	66.468	C14962 (12)	3,000	0	3,000	4 (b)
BEACH MONITORING AND NOTIFICATION PROGRAM IMPLEMENTATION GRANTS	66.472	C14962 (12)	2,666	0	2,666	4 (b)
		<b>SUB-TOTAL:</b>	<b>\$5,666</b>	<b>\$0</b>	<b>\$5,666</b>	
		<b>ENVIRONMENTAL PROTECTION AGENCY TOTAL:</b>	<b>\$16,851</b>	<b>\$0</b>	<b>\$16,851</b>	
<b><u>DEPARTMENT OF EDUCATION</u></b>						
<b><u>MOUNT VERNON SCHOOL DISTRICT</u></b>						
TITLE I PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	84.013	C20070679	14,400	0	14,400	
		<b>SUB-TOTAL:</b>	<b>\$14,400</b>	<b>\$0</b>	<b>\$14,400</b>	
		<b>DEPARTMENT OF EDUCATION TOTAL:</b>	<b>\$14,400</b>	<b>\$0</b>	<b>\$14,400</b>	
<b><u>ELECTIONS ASSISTANCE COMMISSION</u></b>						
<b><u>WASHINGTON STATE SECRETARY OF STATE</u></b>						
HELP AMERICA VOTE ACT REQUIREMENTS PAYMENTS	90.401	G-2855 /C20050162	18,000	0	18,000	
		<b>SUB-TOTAL:</b>	<b>\$18,000</b>	<b>\$0</b>	<b>\$18,000</b>	
		<b>ELECTIONS ASSISTANCE COMMISSION TOTAL:</b>	<b>\$18,000</b>	<b>\$0</b>	<b>\$18,000</b>	

Skagit County, Washington  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<b>EDUCATIONAL SERVICE DISTRICT #105</b>						
HIGH INTENSITY DRUG TRAFFICKING AREA	93.276	9006000126 /C20070452	6,323	0	6,323	
HIGH INTENSITY DRUG TRAFFICKING AREA	93.276	9007000135 /C20080672	19,290	0	19,290	
		<b>SUB-TOTAL:</b>	<b>\$25,614</b>	<b>\$0</b>	<b>\$25,614</b>	
<b>NORTHWEST REGIONAL COUNCIL</b>						
SPECIAL PROGRAMS FOR THE AGING - TITLE III, PART C - NUTRITION SERVICES	93.045	08009-NUTR(3) /C20080073	166,457	0	166,457	2, 6
NUTRITION SERVICES INCENTIVE PROGRAM	93.053	08009-NUTR(2) /C20080073	74,975	0	74,975	
		<b>SUB-TOTAL:</b>	<b>\$241,432</b>	<b>\$0</b>	<b>\$241,432</b>	
<b>WASHINGTON STATE DEPARTMENT OF HEALTH</b>						
IMMUNIZATION GRANTS	93.268	C14962 (12)	5,453	0	5,453	4 (b)
IMMUNIZATION GRANTS	93.268	C14962 (12)	31,958	0	31,958	4 (b)
IMMUNIZATION GRANTS	93.268	C14962 (12)	122,086	0	122,086	3
IMMUNIZATION GRANTS	93.268	C14962 (12)	789	0	789	4 (b)
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (12)	87,078	0	87,078	4 (b)
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (12)	29,330	0	29,330	4 (b)
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	C14962 (12)	23,817	0	23,817	4 (b)
CHILDCARE AND DEVELOPMENT BLOCK GRANT	93.575	C14962 (12)	19,239	0	19,239	4 (b)
NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM	93.889	C14962 (12)	1,095	0	1,095	4 (b)

Skagit County, Washington  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<b>WASHINGTON STATE DEPARTMENT OF HEALTH</b>						
PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT	93.991	C14962 (12)	56,500	0	56,500	4 (b)
MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT TO THE STATES	93.994	C14962 (12)	93,595	0	93,595	4 (b)
<b>SUB-TOTAL:</b>			<b>\$470,940</b>	<b>\$0</b>	<b>\$470,940</b>	
<b>WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES</b>						
PROMOTING SAFE AND STABLE FAMILIES	93.556	0863-33542	1,447	0	1,447	4 (b)
PROMOTING SAFE AND STABLE FAMILIES	93.556	0863-42629	2,299	0	2,299	4 (b)
CHILD SUPPORT ENFORCEMENT	93.563	2110-80608	104,913	0	104,913	2, 4 (c)
CHILD SUPPORT ENFORCEMENT	93.563	2110-80608	25,867	0	25,867	2, 4 (c)
CHILD SUPPORT ENFORCEMENT	93.563	75-1501-0-1-609	452,687	0	452,687	2, 4 (c)
MEDICAL ASSISTANCE PROGRAM	93.778	0563-75746 /C20050371	107,175	0	107,175	2, 4 (b)
MEDICAL ASSISTANCE PROGRAM	93.778	0763-20690 (1)	60	0	60	4 (b)
BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	93.958	0863-35145 /C20080090	2,295	0	2,295	
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	9514-3 /C20070464/A20080231	153,366	0	153,366	2
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE.	93.959	9514-3 /C20070464/A20080231	48,534	0	48,534	2
<b>SUB-TOTAL:</b>			<b>\$898,642</b>	<b>\$0</b>	<b>\$898,642</b>	
<b>WASHINGTON STATE SECRETARY OF STATE</b>						
VOTING ACCESS FOR INDIVIDUALS WITH DISABILITIES - GRANTS TO STATES	93.617	OSOS NO. G-3853 /C20080310	5,480	0	5,480	
<b>SUB-TOTAL:</b>			<b>\$5,480</b>	<b>\$0</b>	<b>\$5,480</b>	

Skagit County, Washington  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b><u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<b><u>WASHINGTON STATE SECRETARY OF STATE</u></b>						
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL:</b>				<b>\$0</b>	<b>\$1,642,108</b>	
<b><u>CORPORATION FOR NATIONAL SERVICE</u></b>						
<b><u>CORPORATION FOR NATIONAL SERVICE</u></b>						
RETIRED SENIOR VOLUNTEER PROGRAM	94.002	08SRPWA008 /C20070703	0	63,690	63,690	2
<b>SUB-TOTAL:</b>				<b>\$0</b>	<b>\$63,690</b>	
<b>CORPORATION FOR NATIONAL SERVICE TOTAL:</b>				<b>\$0</b>	<b>\$63,690</b>	
<b><u>DEPARTMENT OF HOMELAND SECURITY</u></b>						
<b><u>SNOHOMISH COUNTY - DEPARTMENT OF EMERGENCY MANAGEMENT</u></b>						
EMERGENCY MANAGEMENT PERFORMANCE GRANTS	97.042	E07-368	11,194	0	11,194	2
HOMELAND SECURITY GRANT PROGRAM	97.067	E07-190	113,328	0	113,328	5
HOMELAND SECURITY GRANT PROGRAM	97.067	E08-098	29,346	0	29,346	
<b>SUB-TOTAL:</b>				<b>\$0</b>	<b>\$153,868</b>	
<b><u>WASHINGTON STATE MILITARY DEPARTMENT</u></b>						
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	JM PW 24C	14,363	0	14,363	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	JM PW 8G	3,484	0	3,484	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 103	1,125	0	1,125	2
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTALLY DECLARED DISASTERS)	97.036	PW 154	7,542	0	7,542	2

Skagit County, Washington  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For The Year Ended December 31, 2008

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<b>DEPARTMENT OF HOMELAND SECURITY</b>						
<b>WASHINGTON STATE MILITARY DEPARTMENT</b>						
DISASTER GRANTS-PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)	97.036	PW 42	21,275	0	21,275	2
EMERGENCY MANAGEMENT PERFORMANCE GRANTS	97.042	E08-330	42,146	0	42,146	2
HOMELAND SECURITY GRANT PROGRAM	97.067	820-07	846	0	846	
		<b>SUB-TOTAL:</b>	<b>\$90,780</b>	<b>\$0</b>	<b>\$90,780</b>	
<b>WASHINGTON STATE PATROL</b>						
HOMELAND SECURITY GRANT PROGRAM	97.067	WSP NO. C070728FED	132,569	0	132,569	
		<b>SUB-TOTAL:</b>	<b>\$132,569</b>	<b>\$0</b>	<b>\$132,569</b>	
<b>DEPARTMENT OF HOMELAND SECURITY TOTAL:</b>			<b>\$377,217</b>	<b>\$0</b>	<b>\$377,217</b>	
<b>TOTAL FEDERAL AWARDS EXPENDED:</b>			<b>\$3,096,726</b>	<b>\$1,253,669</b>	<b>\$4,350,395</b>	

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, 2008**

**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 2008 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% (d) 9%

**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.

**NOTE 6 – PROGRAM INCOME**

The amount reported is net of \$202,573 received as program income.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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 employees are located around the state to deliver our services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. 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 quality assurance program.

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**Chief of Staff**  
**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Jim Brittain, CPA**  
**Jan Jutte, CPA, CGFM**  
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