

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

Skagit County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004270

Issue Date
September 27, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 27, 2010

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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Skagit County January 1, 2009 through December 31, 2009

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Federal Summary

Skagit County January 1, 2009 through December 31, 2009

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.665	Schools and Roads Grants to States
16.803	ARRA – Edward Byrne Memorial Justice Assistance Grant/Grants to States and Territories (Recovery Act)
66.439	Targeted Watershed Grants
93.045	Aging Cluster – Title III, Part C – Nutrition Services
93.053	Aging Cluster – Nutrition Services Incentive Program
93.069	Public Health Emergency Preparedness
93.563	Child Support Enforcement
93.705	ARRA – Aging Cluster Home Delivered Nutrition Services for States (Recovery Act)
93.707	ARRA – Aging Cluster Congregate Nutrition Services for States (Recovery Act)
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.036	Disaster Grants Public Assistance (Presidentially Declared Disasters)

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, 2009 through December 31, 2009

1. **Skagit County's internal controls were inadequate to ensure compliance with requirements for grants used to pay for programs for the aging.**

CFDA Number and Title: 93.045 Special Programs for the Aging – Title III, Part C – Nutrition Services
93.053 Nutrition Services Incentive Program
93.705 ARRA Aging Home –Delivered Nutrition Services for States
93.707 ARRA - Aging Congregate Nutrition Services for States

Federal Grantor Name: U.S. Department of Health and Human Services

Federal Award/Contract Number: 121009-NUTR

Pass-through Entity Name: Northwest Regional Council

Pass-through Award/Contract Number: C20090063, A20090163 and A20100006

Questioned Cost Amount: \$0

Background

Skagit County's Senior Services Department administers a program that coordinates a system to provide long-term care for the aging in home and community-based settings. The County used \$270,668 of this grant money for the program in fiscal year 2009.

Description of Condition

Suspension and Debarment

Federal regulations prohibit grant recipients from paying more than \$25,000 to parties that are suspended or debarred from doing business with the federal government. Grant recipients must take one of the following steps to comply with the regulations:

- Consult the federal Excluded Parties List 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.

We found the County did not check to see whether a vendor was suspended or disbarred before awarding an \$86,917.21 contract for the purchase of supplies and materials.

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 A-102 Common Rule provides purchasing guidance for state and local governments when no state laws pertain to the item/service being procured. The Common Rule requires quotes for purchases up to \$100,000 and bids for purchases over \$100,000.

We found the County did not competitively bid an \$86,917 purchasing contract with a food vendor. The County purchased the items using a contract through the State Department of General Administration that had expired and that did not apply to the items purchased.

Cause of Condition

We reported this condition to the County in 2008. The County made the recommended improvements after the 2009 audit period ended.

Effect of Condition and Questioned 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 affect the County's eligibility to receive federal funding in the future.

Procurement

When the County does not use a competitive bid process, it increases the risk that it does not receive the best price.

We were able to determine that costs charged to this program were allowable and are not questioning them.

Recommendation

We recommend the County establish and follow adequate internal controls and monitoring to ensure it meets all federal grant requirements.

County's Response

The repeat of this finding is an unfortunate timing issue and is a continuation from the 2008 audit. The County established recommended changes based on the audit, but because the audit was completed so late in the year the changes affected only the last quarter of 2009. The changes include assuring suspension and debarment certification language is included in all contracts additional verification of purchases made using state-bid contracts. The County has established and follows adequate internal controls and monitoring to ensure we meet all federal grant requirements.

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.

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 non-procurement transaction that is covered under Sec. 180.210, 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, 2009 through December 31, 2009

2. Skagit County did not comply with Child Support Enforcement grant requirements.

CFDA Number and Title:	93.563 Child Support Enforcement
Federal Grantor Name:	U.S. Department of Health and Human Services Administration For Children and Families
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Social and Health Services
Pass-through Award/Contract Number:	2110-80608 and 0863-31629-01
Questioned Cost Amount:	\$26,099

Description of Condition

The County received \$609,153 in Child Support Enforcement grant money to assist it in non-custodial parents, establishing paternity and obtaining child and spousal support.

During our audit of this grant in 2008, we found the County had not updated the numbers it uses to calculate indirect costs such as administrative operating costs that it charged to the grant since 2002. The County-wide indirect cost allocation plan also did not contain an organizational chart as required by the grant. These indirect cost rates are used in proposals to the grantor and are to be updated annually unless agreed to in advance by the grantor.

We found this condition continued in 2009.

Cause of Condition

After our 2008 audit, the County took steps to update its indirect cost rate proposal. However, the revised proposal was not in place until after the 2009 audit period ended.

Effect of Condition and Questioned Costs

During fiscal year 2009, the County was reimbursed for \$83,979 in indirect costs that were not supported by a current rate proposal. We are questioning costs of \$26,099. This is the difference between the amount reimbursed and the amount calculated using the current rate.

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

This is a carryover from the 2008 audit, in which the SAO questioned \$89,979 in indirect costs. In November of 2009, based on the 2008 audit finding, the County contracted with Miller & Miller, P.S. to guide us in determining the costs to be measured and methods used to measure the costs that are included in the indirect cost rate. The study was completed in May of 2010, much too late for use in 2009. This new rate is current being used for 2010 and the County has established criteria for the cost allocation plan to be updated annually. The questioned costs in the 2008 audit were compared to the new rate and it was determined that the County will receive a refund. We expect this will continue for the year 2009.

Auditor's Remarks

We appreciate the steps the County is taking to resolve this issue. We will follow up 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, 2009 through December 31, 2009

3. Skagit County needs to improve its 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 previous audits of its 2008 and 2007 financial statements. The County has continued to make improvements in its internal controls over preparation of the financial statements, including asset depreciation calculations and general fund accounts receivable reporting.

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:

- The County's procedures for recording additions, deletions, and reporting capital assets were not working as designed. The procedures failed to identify Solid Waste capital assets owned by the County for inclusion in its asset database and to remove assets no longer owned by the County.
- Staff responsible for the preparation of the Schedule of Expenditures of Federal Awards did not have adequate knowledge of reporting requirements and communication between the County Auditor's Office and departments of the County was not sufficient to ensure that staff preparing the Schedule of Expenditures of Federal Awards obtained the necessary information to ensure the schedule was accurate and complete.
- Staff responsible for preparing accounts receivable amounts for the General Fund financial statements did not have the necessary information to ensure the Superior Court net accounts receivable balance was included in the financial statements.

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

Cause of Condition

The County has experienced significant turnover in the key positions responsible for the preparation of the financial statements and supporting schedules. 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 documented below:

Solid Waste Capital Assets:

The Solid Waste Division's capital assets include land, buildings, machinery and equipment, and improvements. The County did not ensure the database listing the division's capital assets was complete, nor could the County support the existence of all capital assets reported on its financial statements. Due to turnover in staff, these errors were not identified by the employees responsible for preparing the statements.

As a result, 10 land parcels with a total estimated historical cost of \$147,250 and two buildings with a total estimated historical cost of \$966,268 were omitted. And equipment and buildings no longer owned by the County were included as fully depreciated assets with an original cost of \$159,821. These errors have been corrected by the County.

Schedule of Expenditures of Federal Awards:

Portions of three federal grants were omitted from the Schedule of Expenditures of Federal Awards and one grant was completely omitted from the schedule.

Due to the turnover in staff and a lack of effective communication between the Auditor's Office and County departments, employees responsible for preparing this schedule did not know that grant expenditures listed were incomplete. As a result, expenditures reported on the Schedule of Expenditures of Federal Awards were understated by \$969,429. The County corrected these errors. The correction also resulted in our adding the federal grant program to the scope of our audit.

General Fund Accounts Receivable:

Controls over the preparation of the County's financial statements did not ensure the Superior Court net accounts receivable balance of \$240,968 was included in the General Fund balance. Therefore, the net accounts receivable balance shown in the financial statements was incorrect. The County has corrected this error.

Recommendation

We recommend the County:

- Establish and follow effective procedures and oversight to ensure accurate recording of capital asset additions, deletions and reporting.

- Provide proper training, and oversight of staff to ensure a complete and accurate of Schedule of Expenditures of Federal Awards is prepared.
- Establish and maintain effective communication between the Auditor's Office and County departments of accounting information.
- Establish and follow internal control procedures that include a review of the financial statements after final preparation to ensure all account balances are complete and reported on the financial statements.

County's Response

During 2009 the County experienced turnover in two 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.

Solid Waste Capital Assets

Due to lack of adequate staffing, the statements did not receive a complete review and analysis. In the future, there are several steps that will be taken to improve internal control. The Solid Waste Manager will be included more fully into the Fund's statement preparation and asset list and valuation. The capital assets (land, buildings, equipment and other improvements) will receive a more detailed analysis to determine useful life, historical cost, depreciation and a more accurate evaluation of book value. Ultimately, the County was able to provide justification for cost valuations of the land parcels and land improvements. Equipment and buildings no longer owned by the County were removed and the two buildings which were originally omitted were added. These errors have been corrected by the County.

Schedule of Expenditures of Federal Awards

As stated in the finding, there has been turnover in staff responsible for the preparation of this schedule. In addition, there were new requirements on federal grants this year. The County will provide additional training this year, and has adequately staffed both positions responsible for preparation and review of this Schedule.

General Fund Accounts Receivable

The Local Court Revenue Report is generated by the state Administrator of the Courts in January of each year. That report includes the net accounts receivable balance for Skagit County Superior Court. The Clerk's Office will forward a copy of that report to the Auditor to be included in the County General Fund financial reports in the future.

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.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Management is responsible for the entity's performance, compliance and financial reporting. Therefore, the adequacy of internal controls to provide reasonable assurance regarding the achievement of such objectives is also the responsibility of management.

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, 2009 through December 31, 2009

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

Audit Period: 1/1/2008 – 12/31/2008	Report Reference No: 1002734	Finding Reference No: 1	CFDA Number(s): 93.045 and 93.053
Federal Program Name and Granting Agency: Special Programs for the Aging – Title III, Part C - Nutrition Services, Nutrition Services Incentive Program U.S. Department of Health and Human Services		Pass-Through Agency Name: Northwest Regional Council	
Finding Caption: 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.			
Background: Skagit County's Senior Services Department administers the County's adult aging program. The County reported program expenditures of \$241,432 for fiscal year 2008. The audit found that eight salaried and seven hourly employees were not preparing semiannual certifications as required by the federal Office of Management and Budget Circular A-87. 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. When awarding a vendor contract for \$145,435, the County did not ensure the vendor was not suspended or debarred. 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. During 2008 the County did not competitively bid a contract for purchasing supplies and materials from a food vendor, totaling \$145,435.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>A. Allowable costs</i> <i>Senior Services has created monthly certification forms used by departmental employees working on federal grants. These forms were created and used after the 2008 audit finding for the remainder of 2009 and are in use today.</i>			

B. Suspension and debarment

Each time Senior Services begins working with a new vendor and quarterly for all continuing vendors, staff checks the EPLS website listing for suspended and debarred suppliers. When the query is made, a copy of the screen is made and placed in the vendor file. If a vendor is found to be suspended or debarred, business with them will cease immediately.

In addition, all county contracts now include suspension and debarment certification language. All contract reviews include a specific review for compliance.

C. Procurement

Senior Services regularly checks the Washington State Department of General Administration WEB site to assure that vendors with whom orders are being placed are currently under a state contract. This check is documented and placed in the vendor file.

Local vendors are used to purchase fresh, in season produce. Because of the nature of farm prices and a lack of adequate state contracts in this area, Senior Services uses a wide variety of local vendors and monitors each to assure that purchases with each vendor remain under \$2,500 per fiscal year. To the extent possible, phone bids are done to assure the best price available. Documentation on cumulative purchases is kept in the department and monitored to assure that the vendor is no longer used when the maximum is reached.

Audit Period: 1/1/2008 – 12/31/2008	Report Reference No: 1002734	Finding Reference No: 2	CFDA Number(s): 93.563
Federal Program Name and Granting Agency: Child Support Enforcement, U.S. Department of Health and Human Services Administration for Children and Families		Pass-Through Agency Name: Department of Social and Health Services	
Finding Caption: Skagit County did not comply with allowable cost compliance requirements related to its Child Support Enforcement grants.			
Background: 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. Questioned costs were \$83,979.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: In 2009 the County contracted with Miller and Miller for training in the development of an indirect cost allocation rate, which was completed and implemented in 2010. The County will review this plan annually.			

Status of Prior Audit Findings

Skagit County January 1, 2009 through December 31, 2009

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

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

Report No. 1002734, dated December 28, 2009

Background

During the 2008 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.

There has been significant turnover in the position primarily responsible for the compilation of departmental information and preparation of the County's financial statements. A sufficiently detailed review and reconciliation of the financial statement amounts was not performed to ensure the statements and supporting schedules were accurate, complete and adequately supported.

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.

The County's system of internal controls over the calculation of depreciation was inappropriate and did not ensure depreciation amounts were correctly calculated and consistently applied to similar assets. 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; however, we identified other significant deficiencies over the financial statements and supporting schedule preparation process that, when taken together, represent a material weakness in the County's controls. See Schedule of Audit Findings and Responses, Finding 1.

The County used the acceptable method for reporting the District Court accounts receivable; however, the Superior Court accounts receivable were not included in the General Fund balance. See Schedule of Audit Findings and Responses, Finding 1.

We determined that the County has implemented internal controls over its depreciation calculation and has created a new system for tracking its capital assets and calculating accumulated depreciation.

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, 2009 through December 31, 2009**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 10, 2010.

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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 3 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2010

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, 2009 through December 31, 2009**

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, 2009. The County's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 material weaknesses.

The County's response to the findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the County's responses 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2010

Independent Auditor's Report on Financial Statements

**Skagit County
January 1, 2009 through December 31, 2009**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements as listed on page 24. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Skagit County, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Mental Health and County Road funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 25 through 36 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 opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 10, 2010

Financial Section

Skagit County
January 1, 2009 through December 31, 2009

REQUIRED SUPPLEMENTAL INFORMATION

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Statement of Activities – 2009
Balance Sheet – Governmental Funds – 2009
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2009
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Mental Health Fund – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – County Road Fund – 2009
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Statement of Cash Flows – Proprietary Funds – 2009
Statement of Fiduciary Net Assets – Fiduciary Funds – 2009
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SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2009
Notes to the Schedule of Expenditures of Federal Awards – 2009

This discussion and analysis provides a narrative overview of Skagit County's financial activities for the fiscal year ended December 31, 2009. 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, 2009, total assets of the County exceeded total liabilities by \$411.2 million (net assets). Net assets invested in capital assets (net of depreciation and related debt) account for 90% of this amount, at \$370 million. Of the remaining net assets, \$24.7 million was restricted for specific purposes and \$16.8 million was unrestricted.
- Ending net assets for governmental activities was \$408.7 million. Of that amount, \$369.4 million was invested in capital assets, \$24.8 million was restricted, and \$14.5 million was unrestricted.
- Ending fund balance for the General Fund was \$6.60 million, a decrease of \$1.42 million over the previous year.
- Ending fund balance for the County Road fund was \$9.8 million, a decrease of \$3.1 million over the previous year.
- Total long-term liabilities of the County were \$29.4 million at December 31, 2009.

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 and The Central Valley Ambulance Authority, component units of Skagit County. The component units are not covered in this discussion. Additional information concerning these entities 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, 2009**

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				
	2009	2008	2009	2008	2009	2008	
ASSETS							
Current and Other Assets	\$63,074,590	\$70,637,084	\$5,806,918	\$6,027,740	\$68,881,508	\$76,664,824	-10.15%
Capital Assets and							
Construction in Progress (Net of Depreciation)	379,005,797	359,114,590	5,672,885	5,025,920	384,678,682	364,140,510	5.64%
Total Assets	<u>442,080,387</u>	<u>429,751,674</u>	<u>11,479,803</u>	<u>11,053,660</u>	<u>453,560,190</u>	<u>440,805,334</u>	2.89%
LIABILITIES							
Long-Term Liabilities	21,396,028	21,984,854	7,973,340	9,133,798	29,369,368	31,118,652	-5.62%
Other Liabilities	11,977,566	10,845,518	620,901	450,312	12,598,467	11,295,830	11.53%
Total Liabilities	<u>33,373,594</u>	<u>32,830,372</u>	<u>8,594,241</u>	<u>9,584,110</u>	<u>41,967,835</u>	<u>42,414,482</u>	-1.05%
NET ASSETS							
Invested in Capital Assets, Net of Related Debt	369,397,842	348,749,188	592,025	1,183,845	369,989,867	349,933,033	5.73%
Restricted	24,794,518	33,205,192	-	-	24,794,518	33,205,192	-25.33%
Unrestricted	14,514,433	14,966,923	2,293,537	285,705	16,807,970	15,252,628	10.20%
Total Net Assets	<u>\$408,706,793</u>	<u>\$396,921,302</u>	<u>\$2,885,562</u>	<u>\$1,469,550</u>	<u>\$411,592,355</u>	<u>\$398,390,852</u>	3.31%

Of the \$68 million in current and other assets at December 31, 2009, \$52.5 million is cash, cash equivalents and investments. A very small portion of this amount, \$1.15 million, is restricted for specific purposes. Accounts receivable and amounts due from other governments total \$10.2 million. Inventories/prepayments total \$5.8 million. The remaining \$0.4 million is deferred charges. Cash, cash equivalents and investments represented 79.1% (compared to 79% in 2008), while accounts receivable and amounts due from other governments accounted for 15.7% (compared to 13.3% from 2008).

At December 31, 2009, the County had outstanding long-term liabilities of \$29.4 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 \$12.6 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 (90%) 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, 6.% of the County's net assets are subject to legal restrictions for specific purposes. The remaining balance of net assets, \$16.8 million (4%), is unrestricted and may be used to finance ongoing general operations of the County.

**Skagit County, Washington
Management's Discussion and Analysis
December 31, 2009**

Statement of Changes in Net Assets

The County's total net assets increased by \$13.2 million in 2009. Governmental activities reflected an increase of \$11.8 million while the net assets of business-type activities increased \$1.4 million. Key elements in these changes are shown in the following table:

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2009	2008	2009	2008	2009	2008
REVENUES						
Program Revenues						
Charges for Services	\$27,375,705	\$30,973,324	\$9,562,051	\$9,884,404	\$36,937,756	\$40,857,728
Operating Grants and Contributions	11,271,785	9,659,021	485,717	266,239	11,757,502	9,925,260
Capital Grants and Contributions	3,384,760	1,496,744	-	-	3,384,760	1,496,744
General Revenues						
Taxes	55,387,884	57,778,709	-	-	55,387,884	57,778,709
Interest Earnings on Investments	1,432,797	3,040,686	44,502	138,581	1,477,299	3,179,267
Gain/(Loss) on Sale of Assets	(59,262)	(82,021)	-	-	(59,262)	(82,021)
Total Revenues	98,793,669	102,866,463	10,092,270	10,289,224	108,885,939	113,155,687
PROGRAM EXPENSES						
General Government	32,293,073	34,187,307	-	-	32,293,073	34,187,307
Judicial	6,786,074	6,385,303	-	-	6,786,074	6,385,303
Public Safety	24,713,361	22,665,563	-	-	24,713,361	22,665,563
Physical Environment	2,185,797	3,008,208	-	-	2,185,797	3,008,208
Transportation	27,080,176	28,136,224	-	-	27,080,176	28,136,224
Economic Environment	5,348,995	5,947,702	-	-	5,348,995	5,947,702
Health and Human Services	11,340,490	12,606,481	-	-	11,340,490	12,606,481
Culture and Recreation	2,573,312	2,782,984	-	-	2,573,312	2,782,984
Solid Waste	-	-	7,723,823	8,216,764	7,723,823	8,216,764
Drainage Utility	-	-	1,626,049	905,641	1,626,049	905,641
Interest on Long Term Debt	660,210	687,761	-	-	660,210	687,761
Total Expenses	112,981,488	116,407,533	9,349,872	9,122,405	122,331,360	125,529,939
Excess (Deficiency) of Revenues Over (Under) Expenditures before transfers						
	(14,187,819)	(13,541,070)	742,398	1,166,819	(13,445,421)	(12,374,251)
Transfers						
	(83,945)	154,075	83,945	(154,075)	-	0
Change in Net Assets	(14,271,764)	(13,386,995)	826,343	1,012,744	(13,445,421)	(12,374,251)
Net Assets, January 1	396,921,942	407,580,224	1,469,550	2,128,105	398,391,492	409,708,329
Prior Period Adjustment	26,056,615	2,728,073	589,669	(1,671,299)	26,646,284	1,056,774
Net Assets, January 1 - Restated	422,978,557	410,308,297	2,059,219	456,806	425,037,776	410,765,103
Net Assets, December 31	408,706,793	\$396,921,302	\$2,885,562	\$1,469,550	\$411,592,355	\$398,390,852

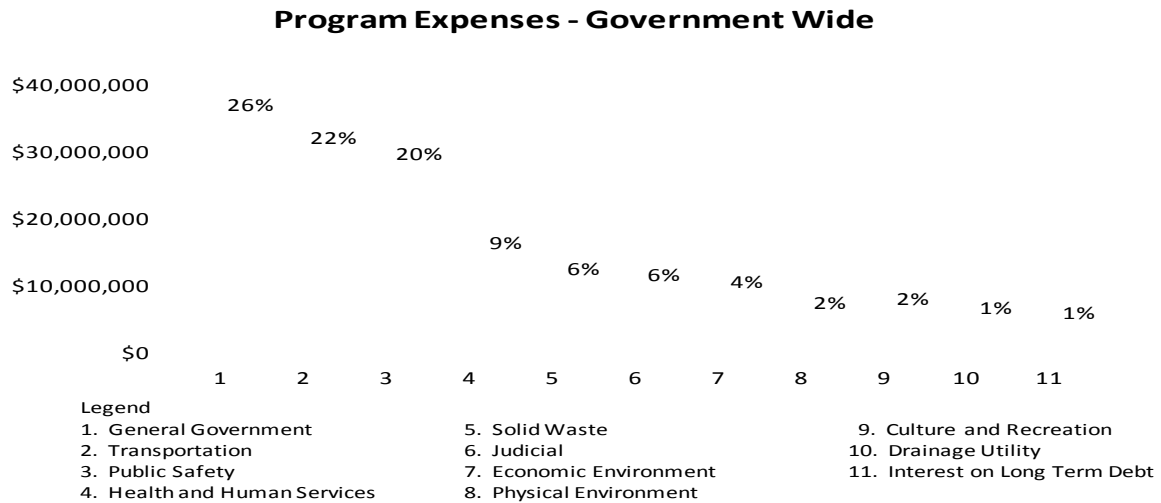
Total revenues were \$108 million in 2009, a decrease of \$4.3 million from 2008. Governmental activities provided \$99 million (90%), while business-type activities added \$10.1 million. Within governmental activities, tax revenue accounted for 51% of total revenue sources (the same as in 2008), with grants and contributions accounting for 10.8% (up from 8.8% in 2008).

**Skagit County, Washington
Management's Discussion and Analysis
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Charges for services accounted for 95% of the revenues of business type activities, with the remaining provided by grants and interest income.

Total expenses for the year amounted to \$122.3 million, a decrease of \$3.2 million from 2008. Governmental activities accounted for \$113 million (92.4%), with the largest program expenses in the areas of general government, transportation, and public safety. These three programs accounted for 74% of total governmental expenses. Of the \$9.3 million in business-type expenses, 83.3% is associated with the solid waste program, a 7.46% decrease from 2008.

The following graph illustrates 2009 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 2009. Together these funds account for 59.9% of total governmental fund assets and 50.6% of total governmental fund balances.

As of December 31, 2009, the County's governmental funds reported combined fund balances of \$35.7 million, a decrease from \$45 million in 2008. Of this amount, \$29 million (82%) is unreserved and available for spending within the designated funds. Reserved fund balance of \$6.5 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 decreased from \$7.7 million at December 31, 2008, to \$4.4 million at December 31, 2009. Total fund balance decreased from \$8 million to \$6.60 million. Total assets of the General Fund were \$13.4 million at December 31, 2009, accounting for 25.4% of total governmental fund assets. This represents a decrease of \$.3 million from 2008.

Governmental Funds Revenue/Expenditure Analysis

Total revenues for governmental funds were \$96.7 million in 2009. This represents a decrease of \$4.9 million from 2008, which is due primarily to decreased revenues in Other Governmental Funds. During the same period, total expenditures decreased \$3.4 million. This decrease is reflected primarily in the Facility Improvement Fund and the non-major governmental funds. The General Fund and the County Road fund account for 69.1% of all governmental fund revenue (up from 67.4% in 2008) and 61.1% of all expenditures (down from 56.8% in 2008).

The net change in fund balance for the General Fund in 2009 was a negative \$1.4 million. The decrease in fund balance for the County Road fund was \$3.1 million. Fund balance for the Mental Health Fund decreased \$.2 million. The decrease of \$2.2 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 that continued from 2008 into 2009. The non-major governmental funds had an overall negative change in fund balances of \$2.18 million for 2009.

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 2009. Comparative information from the proprietary funds' statement of net assets is as follows:

**Skagit County, Washington
Management's Discussion and Analysis
December 31, 2009**

	Net Assets					
	Solid Waste		Drainage Utility		Total	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$2,147,954	\$2,513,958	\$2,792,567	\$2,572,982	\$4,940,521	\$5,086,940
Other Current Assets	800,641	928,856	66,788	64,527	867,429	993,383
Total Current Assets	<u>2,948,595</u>	<u>3,442,814</u>	<u>2,859,355</u>	<u>2,637,509</u>	<u>5,807,950</u>	<u>6,080,323</u>
Non-Current Assets						
Construction in Progress	-	-	512,318	564,293	512,318	564,293
Capital Assets	3,934,268	3,004,140	4,960,191	4,641,671	8,894,459	7,645,811
Less Accumulated Depreciation	(2,749,960)	(2,367,045)	(983,932)	(817,139)	(3,733,892)	(3,184,184)
Unamortized Debt Issue Costs	16,193	20,241	-	-	16,193	20,241
Total Non-Current Assets	<u>1,200,501</u>	<u>657,336</u>	<u>4,488,577</u>	<u>4,388,825</u>	<u>5,689,078</u>	<u>5,046,161</u>
Total Assets	<u><u>4,149,096</u></u>	<u><u>4,100,150</u></u>	<u><u>7,347,932</u></u>	<u><u>7,026,334</u></u>	<u><u>11,497,028</u></u>	<u><u>11,126,484</u></u>
LIABILITIES						
Current Liabilities						
Accounts/Vouchers Payable	457,557	325,995	49,534	24,276	507,091	350,271
Other Current Liabilities	1,209,460	1,242,316	37,191	16,165	1,246,651	1,258,481
Total Current Liabilities	<u>1,667,017</u>	<u>1,568,311</u>	<u>86,725</u>	<u>40,441</u>	<u>1,753,742</u>	<u>1,608,752</u>
Non-Current Liabilities						
Bonds Payable	2,381,851	3,127,314	-	-	2,381,851	3,127,314
Other Non-Current Liabilities	4,453,679	4,908,439	22,194	12,429	4,475,873	4,920,868
Total Non-Current Liabilities	<u>6,835,530</u>	<u>8,035,753</u>	<u>22,194</u>	<u>12,429</u>	<u>6,857,724</u>	<u>8,048,182</u>
Total Liabilities	<u>8,502,547</u>	<u>9,604,064</u>	<u>108,919</u>	<u>52,870</u>	<u>8,611,466</u>	<u>9,656,934</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	(3,896,553)	(3,204,980)	4,488,578	4,388,825	592,025	1,183,845
Unrestricted	(456,898)	(2,298,935)	2,750,435	2,584,640	2,293,537	285,705
Total Net Assets	<u><u>(\$4,353,451)</u></u>	<u><u>(\$5,503,915)</u></u>	<u><u>\$7,239,013</u></u>	<u><u>\$6,973,465</u></u>	<u><u>\$2,885,562</u></u>	<u><u>\$1,469,550</u></u>

As of December 31, 2009, the enterprise funds reported combined net assets of \$2.8 million (compared to \$1.5 million in 2008). This is the total of a \$4.3 million deficit in the Solid Waste Fund (down from \$5.5 million in 2008) and a positive \$7.2 million in the Drainage Utility Fund (up from \$7 million in 2008). The Solid Waste Fund reports an investment in capital assets, net of related debt, of a negative \$3.9 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.

**Skagit County, Washington
Management's Discussion and Analysis
December 31, 2009**

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:

	Changes in Net Assets					
	Solid Waste		Drainage Utility		Total	
	2009	2008	2009	2008	2009	2008
REVENUES						
Charges for Services	\$7,967,277	\$8,522,775	\$1,752,705	\$1,352,795	\$9,719,982	\$9,875,570
Intergovernmental	451,792	231,011	33,925	35,228	485,717	266,239
Interest Revenue	23,528	71,304	20,974	67,277	44,502	138,581
Miscellaneous Revenue	6,148	8,591	48	243	6,196	8,834
Total Revenues	8,448,745	8,833,681	1,807,652	1,455,543	10,256,397	10,289,224
EXPENSES						
Personal Services	1,628,668	1,540,255	532,106	471,169	2,160,774	2,011,424
Contractual Services	4,730,938	4,939,183	-	-	4,730,938	4,939,183
Other Supplies and Expenses	1,321,763	1,522,461	927,151	314,044	2,248,914	1,836,505
Depreciation	42,454	28,980	166,792	120,428	209,246	149,408
Loss on Disposition of Capital Assets	-	-	-	-	-	-
Interest Expense	164,127	185,885	-	-	164,127	185,885
Total Expenses	7,887,950	8,216,764	1,626,049	905,641	9,513,999	9,122,405
Income (Loss) Before Transfers	560,795	616,917	181,603	549,902	742,398	1,166,819
Capital Contributions	-	-	-	-	-	-
Interfund Transfers	-	(24,431)	83,945	(129,644)	83,945	(154,075)
Change in Net Assets	560,795	592,486	265,548	420,258	826,343	1,012,744
Net Assets, January 1	(5,503,915)	(4,425,102)	6,973,465	6,553,207	1,469,550	2,128,105
Prior Period Adjustment	589,669	(1,671,299)	-	-	589,669	(1,671,299)
Net Assets, January 1 - Restated	(4,914,246)	(6,096,401)	6,973,465	6,553,207	2,059,219	456,806
Net Assets, December 31	(\$4,353,451)	(\$5,503,915)	\$7,239,013	\$6,973,465	2,885,562	\$1,469,550

Revenues from the Solid Waste Fund represent 86.9% of the total revenues for enterprise funds in 2009, an increase from 85.8% in 2008. Total expenses for the funds were 92.5% of revenues, an increase from 88.6% in 2008.

**Skagit County, Washington
Management's Discussion and Analysis
December 31, 2009**

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, 2009**

	Original Budget	Final Budget	Variance Favorable (Unfavorable)
BUDGETED FUND BALANCE, JANUARY 1	\$ 2,901,137	\$ 5,822,524	\$2,921,387
RESOURCES (IN-FLOWS)			
Taxes	31,813,992	30,988,992	(825,000)
Licenses & Permits	22,500	22,500	-
Intergovernmental Revenue	8,170,850	8,409,268	238,418
Charges for Goods and Services	5,008,659	5,051,929	43,270
Fines and Forfeits	2,177,600	2,177,600	-
Interest Revenue	1,599,000	1,179,000	(420,000)
Miscellaneous Revenues	339,281	431,860	92,579
Transfers In	291,450	318,843	27,393
Total Resources (in-flows)	<u>49,423,332</u>	<u>48,579,992</u>	<u>(843,340)</u>
Amounts Available for Appropriation	<u>52,324,469</u>	<u>54,402,516</u>	<u>2,078,047</u>
CHARGES TO APPROPRIATIONS (OUT-FLOWS)			
General Government Services	17,796,258	17,284,723	511,535
Judicial	7,674,578	8,169,905	(495,327)
Public Safety	17,978,153	19,670,046	(1,691,893)
Utilities and Environment	351,189	441,169	(89,980)
Economic Environment	189,181	191,156	(1,975)
Health and Human Services	4,000	4,000	-
Culture and Recreation	442,586	444,904	(2,318)
Debt Service	56,667	56,667	-
Capital Expenditures	31,000	65,500	(34,500)
Transfers Out	4,899,720	4,057,877	841,843
Amount Charged to Appropriations (out-flows)	<u>49,423,332</u>	<u>50,385,947</u>	<u>(962,615)</u>
BUDGETED FUND BALANCE, DECEMBER 31	<u>\$2,901,137</u>	<u>\$4,016,569</u>	<u>\$1,115,432</u>

**Skagit County, Washington
Management's Discussion and Analysis
December 31, 2009**

The net increase in revenues in the final amended budget represented a favorable variance of 1.7%. The net increase in expenditures represented an unfavorable increase of 1.9%. Total budgeted expenditures increased only slightly more than revenue increased, a difference of \$119 thousand.

The final budget appropriation for general government services reflected an increase primarily due to the settlement of labor contracts with employees in Law Enforcement and establishing a budget for an extraordinary murder case that was handled by the County's Office of Public Defense. Decreases in revenue projections for Sale of Timber/State Land and Sales & Use Tax due to the downturn in the economy prompted reductions to Transfers Out.

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, 2009**

	Final Budget	Actual	Changes Favorable (Unfavorable)
FUND BALANCE, JANUARY 1	\$ 5,822,524	\$ 8,027,031	\$2,204,507
RESOURCES (IN-FLOWS)			
Taxes	30,988,992	30,119,983	(869,009)
Licenses & Permits	22,500	23,948	1,448
Intergovernmental Revenue	8,409,268	8,598,502	189,234
Charges for Goods and Services	5,051,929	4,968,045	(83,884)
Fines and Forfeits	2,177,600	1,870,997	(306,603)
Interest Revenue	1,179,000	1,046,208	(132,792)
Miscellaneous Revenues	431,860	472,912	41,052
Transfers In	318,843	237,287	(81,556)
Total Resources (in-flows)	<u>48,579,992</u>	<u>47,337,883</u>	<u>(1,242,110)</u>
Amounts Available for Appropriation	<u>54,402,516</u>	<u>55,364,914</u>	<u>962,397</u>
CHARGES TO APPROPRIATIONS (OUT-FLOWS)			
General Government Services	17,284,723	16,495,424	789,299
Judicial	8,169,905	7,841,920	327,985
Public Safety	19,670,046	19,282,801	387,245
Utilities and Environment	441,169	370,461	70,708
Economic Environment	191,156	185,150	6,006
Health and Human Services	4,000	2,125	1,875
Culture and Recreation	444,904	434,887	10,017
Debt Service	56,667	57,473	(806)
Capitalized Expenditures	65,500	28,784	36,716
Transfers Out	4,057,877	4,057,877	0
Amount Charged to Appropriations (out-flows)	<u>50,385,947</u>	<u>48,756,902</u>	<u>1,629,045</u>
FUND BALANCE, DECEMBER 31	<u>\$4,016,569</u>	<u>\$6,608,012</u>	<u>\$2,591,442</u>

The largest dollar variances are reflected in tax revenues and fines and forfeits, which decreased due to the economic downturn. 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 3.3% less than budgeted. This is represented primarily by a decrease in General Government Services and overall decreases in all areas except Debt Service and Transfers Out. The most significant variance is in General Government Services; this reflects a contingency line item that was not spent and salary and benefit savings due to position eliminations.

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets

The County's net capital assets were \$383.1 million at December 31, 2009. Construction in progress was an additional \$1.1 million. Capital assets include land, development rights, buildings, improvements, furniture and equipment, and infrastructure. Details of 2009 capital asset transactions are presented in Note IV.D of the notes to the financial statements.

During 2009 the County continued construction and remodeling of real property for County use. 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, 2009, general obligation bonds payable as reported by governmental activities was \$14.655 million. This represents a \$.87 million decrease from the prior year. Business type activities reported general obligation bonds payable of \$3.23 million, a decrease of \$.73 million.

The County's remaining legal capacity for non-voted debt at December 31, 2009 was approximately \$229 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 continued to feel the impacts of a global downturn. According to the Washington State Employment Security Department, the number of unemployed individuals in the County increased to 9.4%, up from 6.9% a year ago. Sales tax collections for 2009, which accounted for approximately 14.8% of the County's General Fund budget, were down 13.6% from the collections in 2008.

The County's overall financial position remains steady even though unrestricted net assets for governmental activities have decreased by 3.02% compared to 2008. The County is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

**Skagit County, Washington
Management's Discussion and Analysis
December 31, 2009**

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

- In November 1999, the voters in Washington approved Initiative 695, which eliminated the annual motor vehicle excise tax and replaced it with a \$30 annual fee on motor vehicles. Although this initiative was later ruled unconstitutional by the courts, the Legislature moved to enact the \$30 annual fee in special session. As a result, a portion of funding the County received from the State for 2000 through 2002 was reduced by approximately \$2.7 million. The County received partial funding of approximately \$1.7 million over the same time period.
- Voters also approved Initiative 747, which capped property tax growth each year at a maximum of 1%, plus any additions for new construction. I-747 was required to be fully implemented beginning with 2002.
- In April of 2003, the voters approved a 1/10th of 1% increase in sales tax to fund emergency communication systems and facilities.
- In December 2005, the Board of County Commissioners signed an Ordinance implementing a 1/10th of 1% increase in sales and use tax for the purpose of providing funds for new and expanded chemical dependency or mental health treatment services and for the operation of new or expanded therapeutic court programs.
- In December 2005, the Board of County Commissioners signed a resolution creating the Skagit County Clean Water (Shellfish Protection) District. While assessments were authorized at this time, collection didn't begin until the 2007 tax year. The assessment was authorized for 3 years.
- In December 2009, the Board of County Commissioners signed a resolution authorizing a shift in the Road Levy in the amount of \$1,000,000 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, 2009

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	EMS	CVA
ASSETS					
Cash and Cash Equivalents	\$ 27,840,571	\$ 4,940,521	\$ 32,781,092	\$ 57,807	\$ 219,096
Investments	18,595,318	-	18,595,318	1,986,855	0
Accounts Receivables, Net	4,001,295	792,925	4,794,220		686,060
Due from Other Governments	5,389,798	23,890	5,413,688	920,000	525,310
Internal Balances	17,225	(17,225)	-	-	-
Inventories and Prepayments	5,733,418	50,614	5,784,032	-	-
Deferred Charges	344,087	16,193	360,280	700	-
Restricted Assets:			-		
Restricted for Debt Service:			-		
Cash/Cash Equivalents	25,472	-	25,472	-	-
Investments	1,127,406	-	1,127,406	-	-
Non Depreciated Capital Assets, Net	29,265,166	793,060	30,058,226		
Capital Assets, Net	349,110,817	4,367,507	353,478,324	511,819	394,885
Construction in Progress	629,814	512,318	1,142,132	-	-
Total Assets	442,080,387	11,479,803	453,560,190	3,477,181	1,825,351
LIABILITIES					
<u>Liabilities</u>					
Accounts Payable	5,835,367	507,091	6,342,458	9,028	48,248
Other Liabilities	4,821,181	113,810	4,934,991	20,652	-
Due to Other Governments	1,321,018	-	1,321,018	268,559	10,027
Long Term Liabilities:			-		
Due within One Year	1,115,041	1,115,616	2,230,657	27,761	-
Due in More Than One Year	20,280,987	6,857,724	27,138,711	262,655	317,027
Total Liabilities	33,373,594	8,594,241	41,967,835	588,655	375,302
<u>Net Assets</u>					
Invested in Capital Assets, Net of Related Debt	369,397,842	592,025	369,989,867	511,819	394,885
Restricted for:					
General Government	4,575,260	-	4,575,260	-	-
Public Safety	927,212	-	927,212	-	-
Physical Environment	1,743,577	-	1,743,577	-	-
Transportation	9,759,391	-	9,759,391	-	-
Economic Environment	1,336,270	-	1,336,270	-	-
Health & Human Services	4,885,786	-	4,885,786	-	-
Culture and Recreation	417,144	-	417,144	-	-
Debt Service	1,149,878	-	1,149,878	-	-
Unrestricted	14,514,433	2,293,537	16,807,970	2,376,707	1,055,164
Total Net Assets	\$ 408,706,793	\$ 2,885,562	\$ 411,592,355	\$ 2,888,526	\$ 1,450,049

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Activities
For the Year Ended December 31, 2009

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets				Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	EMS	Component Units CVA
Primary Government:									
Governmental Activities:									
General Government	\$ 32,293,073	\$ 7,888,910	\$ 1,381,188	\$ 824,146	\$ (22,198,829)	\$ -	\$ (22,198,829)	\$ -	\$ -
Judicial	6,786,074	3,931,874	421,850	-	(2,432,350)	-	(2,432,350)	-	-
Public Safety	24,713,361	3,577,904	3,541,586	96,982	(17,496,889)	-	(17,496,889)	-	-
Physical Environment	2,185,797	89,253	1,454,393	126,438	(515,713)	-	(515,713)	-	-
Transportation	27,080,176	6,188,799	1,280,440	2,035,345	(17,575,592)	-	(17,575,592)	-	-
Economic Environment	5,348,995	1,424,780	1,032,393	-	(2,891,822)	-	(2,891,822)	-	-
Health and Human Services	11,340,490	3,555,103	1,968,580	-	(5,816,807)	-	(5,816,807)	-	-
Culture and Recreation	2,573,312	719,082	191,355	301,849	(1,361,026)	-	(1,361,026)	-	-
Interest on Long Term Debt	660,210	-	-	-	(660,210)	-	(660,210)	-	-
Total Governmental Activities	112,981,488	27,375,705	11,271,785	3,384,760	(70,949,238)	-	(70,949,238)	-	-
Business-Type Activities									
Solid Waste	7,723,823	7,809,298	451,792	-	-	537,267	537,267	-	-
Drainage Utility	1,626,049	1,752,753	33,925	-	-	160,629	160,629	-	-
Total Business-Type Activities	9,349,872	9,562,051	485,717	-	-	697,896	697,896	-	-
Total Primary Government	122,331,360	36,937,756	11,757,502	3,384,760	(70,949,238)	697,896	(70,251,342)	-	-
Component Unit									
Emergency Medical Services Commission	3,868,304	1,506,610	3,444,749	-	-	-	-	1,083,055	0
Central Valley Amulance Authority	2,385,505	2,704,013	0	-	-	-	-	-	318,508
Total Component Unit	6,253,809	4,210,623	3,444,749	-	-	-	-	1,083,055	318,508
General Revenues									
Taxes									
Property					38,020,570		38,020,570		
Sales					13,850,662		13,850,662		
Other					3,516,652		3,516,652		477,410
Interest and Investment Earnings					1,432,797	44,502	1,477,299	11,927	
Gain (Loss) from Sale of Capital Assets					(59,262)		(59,262)		
Transfers					(83,945)	83,945	0		
Total General Revenues and Transfers					56,677,474	128,447	56,805,921	11,927	477,410
Change in Net Assets					(14,271,764)	826,343	(13,445,421)	1,094,982	795,918
Net Assets, January 1					396,921,942	1,469,550	398,391,492	1,719,625	654,131
Prior Period Adjustments					26,056,615	589,669	26,646,284	73,919	-
Net Assets, January 1, as Restated					422,978,557	2,059,219	425,037,776	1,793,544	654,131
Net Assets, December 31					\$ 408,706,793	\$ 2,885,562	\$ 411,592,355	\$ 2,888,526	\$ 1,450,049

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Balance Sheet
Governmental Funds
December 31, 2009

	Major Funds					Total
	General Fund	Mental Health Fund	County Road Fund	Facility Improvement Fund	Other Governmental Funds	
ASSETS						
Cash and Cash Equivalents	\$ 6,129,178	\$ 1,309,220	\$ 655,083	\$ 1,753,982	\$ 7,584,469	\$ 17,431,932
Investments	-	3,573,905	8,659,869	-	7,488,950	19,722,724
Taxes Receivable	852,373	11,509	371,718	-	234,518	1,470,118
Accounts Receivable, Net	2,014,689	-	317,891	-	147,246	2,479,826
Interest Receivable	43,866	-	-	-	-	43,866
Due from Other Funds	25,906	-	-	-	1,506	27,412
Due from Other Governments	1,852,066	385,899	823,268	136,284	2,159,667	5,357,184
Interfund Loans Receivable	2,052,500	-	-	-	3,263,500	5,316,000
Inventories and Prepayments	436,873	8,715	115,243	1,887	190,323	753,041
Total Assets	<u>13,407,451</u>	<u>5,289,248</u>	<u>10,943,072</u>	<u>1,892,153</u>	<u>21,070,179</u>	<u>52,602,103</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts and Vouchers Payable	723,595	204,957	372,691	17,948	1,071,690	2,390,880
Due to Other Funds	-	-	101,413	-	34,650	136,063
Due to Other Governmental Units	5,007	164,309	-	-	1,151,702	1,321,018
Accrued Wages Payable	947,608	16,901	228,192	4,565	277,132	1,474,398
Accrued Employee Benefits	346,810	5,787	92,067	1,605	110,580	556,849
Custodial Accounts	1,785,632	-	17,600	-	159,732	1,962,964
Deferred Revenue	2,990,787	11,509	371,718	-	307,530	3,681,544
Interfund Loans Payable	-	-	-	5,000,000	297,000	5,297,000
Total Liabilities	<u>6,799,439</u>	<u>403,463</u>	<u>1,183,681</u>	<u>5,024,118</u>	<u>3,410,016</u>	<u>16,820,716</u>
Fund Balance						
Reserved for:						
Inventory	-	-	-	-	40,614	40,614
Prepaid Items	157,872	4,963	45,248	813	77,370	286,266
Reserved for Loans Receivable	2,052,500	-	-	-	3,003,000	5,055,500
Debt Service	-	-	-	-	1,149,878	1,149,878
Unreserved, Undesignated, Reported in:						
General Fund	4,397,640	-	-	-	-	4,397,640
Special Revenue Funds	-	4,880,823	9,714,143	-	10,372,028	24,966,994
Capital Project Funds	-	-	-	(3,132,778)	3,017,273	(15,505)
Total Fund Balances	<u>6,603,012</u>	<u>4,885,786</u>	<u>9,759,391</u>	<u>(3,131,965)</u>	<u>17,660,163</u>	<u>35,781,386</u>
Total Liabilities and Fund Balances	<u>\$ 13,407,451</u>	<u>\$ 5,289,248</u>	<u>\$ 10,943,072</u>	<u>\$ 1,892,153</u>	<u>\$ 21,070,179</u>	<u>\$ 52,602,103</u>

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, 2009

Total fund balances as shown on the Governmental Fund Balance Sheet	\$ 35,781,386
Net capital assets of governmental funds as of December 31, 2009 Capital assets used in the activities of governmental funds are not financial resources and therefore are not reported in the funds.	370,355,162
Revenues deferred in the governmental funds and recognized as revenue of the current period on the statement of activities.	3,124,155
Net assets of the internal service funds Internal service funds are included in governmental activities on the statement of net assets.	20,263,598
Balance of long-term liabilities of the governmental funds as of December 31, 2009 Liabilities not due and payable in the current period are not reported in the governmental funds.	(20,817,508)
	<hr/>
Total net assets as reported on the Statement of Net Assets	<u><u>\$ 408,706,793</u></u>

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, 2009

	Major Funds					Total
	General Fund	Mental Health Fund	County Road Fund	Facility Improvement Fund	Other Governmental Funds	
Revenues						
Property Taxes	\$ 21,430,230	\$ 280,311	\$ 10,392,742	\$ -	\$ 5,649,513	\$ 37,752,796
Sales and Use Taxes	7,238,981	2,110,673	194,373	-	4,306,635	13,850,662
Other Taxes	1,450,773	2,097	44,068	-	2,019,714	3,516,652
Licenses and Permits	23,948	-	63,979	-	1,085,542	1,173,469
Intergovernmental Revenues	8,598,502	171,199	6,947,010	301,849	8,387,481	24,406,041
Charges for Services	4,968,045	943,782	1,775,588	-	3,018,352	10,705,767
Fines and Forfeits	1,870,997	-	-	-	121,302	1,992,299
Interest Earnings	1,046,208	29,756	143,194	-	186,403	1,405,561
Donations	56,614	1,000	-	-	433,345	490,959
Other Revenues	416,298	9,819	142,031	229	831,506	1,399,883
Total Revenues	47,100,596	3,548,637	19,702,985	302,078	26,039,793	96,694,089
Expenditures						
Current:						
General Government	16,495,424	-	158,018	-	918,130	17,571,572
Judicial	7,841,920	-	-	-	-	7,841,920
Public Safety	19,282,801	-	-	-	8,958,069	28,240,870
Physical Environment	370,461	-	-	-	2,946,722	3,317,183
Transportation	-	-	17,510,953	1,140,962	124,044	18,775,959
Economic Environment	185,150	-	-	-	5,859,842	6,044,992
Health and Human Services	2,125	3,180,492	-	-	8,941,473	12,124,090
Culture and Recreation	434,887	-	-	-	2,272,938	2,707,825
Debt Service:						
Principal	56,667	-	-	-	960,414	1,017,081
Interest	806	-	-	-	626,558	627,364
Capital Outlay	28,784	-	2,313,403	3,509,707	1,821,738	7,673,632
Total Expenditures	44,699,025	3,180,492	19,982,374	4,650,669	33,429,928	105,942,488
Excess (Deficit) Revenues Over Expenditures	2,401,571	368,145	(279,389)	(4,348,591)	(7,390,135)	(9,248,399)
Other Financing Sources (Uses)						
Proceeds of Long Term Debt	-	-	-	-	389,607	389,607
Proceeds from Sale of Capital Assets	39,025	-	-	-	4,963	43,988
Transfers In	198,262	3,940	-	2,095,166	6,670,379	8,967,747
Transfers Out	(4,057,877)	(608,354)	(2,865,616)	-	(1,710,234)	(9,242,081)
Total Other Financing Source (Uses)	(3,820,590)	(604,414)	(2,865,616)	2,095,166	5,354,715	159,261
Net Change in Fund Balance	(1,419,019)	(236,269)	(3,145,005)	(2,253,425)	(2,035,420)	(9,089,138)
Fund Balance, January 1	8,027,031	5,122,055	12,888,345	(878,540)	19,842,495	45,001,385
Prior Period Adjustment	-	-	16,051	-	(146,912)	(130,861)
Fund Balance, January 1, as restated	8,027,031	5,122,055	12,904,396	(878,540)	19,695,583	44,870,524
Fund Balance, December 31	\$ 6,608,012	\$ 4,885,786	\$ 9,759,391	\$ (3,131,965)	\$ 17,660,163	\$ 35,781,386

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, 2009

Net change in fund balances as shown on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	\$ (9,089,138)
Net Capital Asset Activity	(6,007,050)
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	(378,608)
Internal service funds are included in governmental activities on the statement of net assets	
Net Long-Term Debt Activity	574,944
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	628,089
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	\$ (14,271,763)

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Budgeted Fund Balance, January 1	\$ 2,901,137	\$ 5,822,524	\$ 8,027,031	\$ 2,204,507
Resources (in-flows)				
Taxes	31,813,992	30,988,992	30,119,983	(869,009)
Licenses and Permits	22,500	22,500	23,948	1,448
Intergovernmental Revenue	8,170,850	8,409,268	8,598,502	189,234
Charges for Services	5,008,659	5,051,929	4,968,045	(83,884)
Fines and Forfeits	2,177,600	2,177,600	1,870,997	(306,603)
Interest Revenue	1,599,000	1,179,000	1,046,208	(132,792)
Miscellaneous Revenues	339,281	431,860	472,912	41,052
Transfers In	291,450	318,843	237,287	(81,556)
Total Resources (in-flows)	<u>49,423,332</u>	<u>48,579,992</u>	<u>47,337,883</u>	<u>(1,242,110)</u>
Amounts Available for Appropriation	52,324,469	54,402,516	55,364,914	962,398
Charges to Appropriations (out-flows)				
General Government	17,796,258	17,284,723	16,495,424	789,299
Judicial	7,674,578	8,169,905	7,841,920	327,985
Public Safety	17,978,153	19,670,046	19,282,801	387,245
Physical Environment	351,189	441,169	370,461	70,708
Economic Environment	189,181	191,156	185,150	6,006
Health and Human Services	4,000	4,000	2,125	1,875
Culture and Recreation	442,586	444,904	434,887	10,017
Debt Service	56,667	56,667	57,473	(806)
Capital Expenditures	31,000	65,500	28,784	36,716
Transfers Out	4,899,720	4,057,877	4,057,877	-
Amount Charged to Appropriations (out-flows)	<u>49,423,332</u>	<u>50,385,947</u>	<u>48,756,902</u>	<u>1,629,045</u>
Budgeted Fund Balance, December 31	<u>\$ 2,901,137</u>	<u>\$ 4,016,569</u>	<u>\$ 6,608,012</u>	<u>\$ 2,591,443</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual
Mental Health Fund
For the Year Ended December 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Budgeted Fund Balance, January 1	\$ 2,500	\$ 13,486	\$ 5,122,056	
Resources (in-flows)				
General Property Taxes	279,997	279,997	280,310	313
Sales and Use Taxes	2,454,360	2,454,360	2,110,673	(343,687)
Other Taxes	2,738	2,738	2,097	(641)
Intergovernmental Revenues	194,854	196,864	171,199	(25,665)
Charges for Services	1,071,333	1,129,595	943,782	(185,813)
Interest Earnings	115,630	115,630	29,756	(85,874)
Other Revenue	6	1,006	1,000	(6)
Transfers In	5,000	5,000	3,940	(1,060)
Total Resources (in-flows)	<u>4,123,918</u>	<u>4,185,190</u>	<u>3,542,757</u>	<u>(642,433)</u>
Amounts Available for Appropriation	4,126,418	4,198,676	8,664,813	
Charges to Appropriations (out-flows)				
Health and Human Services	4,036,141	3,820,582	3,180,492	640,090
Transfers Out	380,611	659,809	608,354	51,455
Amount Charged to Appropriations (out-flows)	<u>4,416,752</u>	<u>4,480,391</u>	<u>3,788,846</u>	<u>691,545</u>
Budgeted Fund Balance, December 31	<u>\$ (290,334)</u>	<u>\$ (281,715)</u>	<u>\$ 4,875,967</u>	

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Revenues, Expenditures and Changes to Fund Balances - Budget to Actual
County Road Fund
For the Year Ended December 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Budgeted Fund Balance, January 1	\$ 2,890,775	\$ 5,112,275	\$ 12,904,396	
Resources (in-flows)				
General Property Taxes	10,267,797	10,267,797	10,392,742	124,945
Timber Harvest Taxes	150,000	150,000	194,373	44,373
Excise Taxes	35,000	35,000	44,068	9,068
Licenses and Permits	84,500	84,500	63,979	(20,521)
Intergovernmental Revenues	8,430,801	8,430,801	6,947,010	(1,483,791)
Charges for Services	4,210,201	4,210,201	1,775,588	(2,434,613)
Interest Earnings	108,000	108,000	143,194	35,194
Other Revenue	23,815	23,815	142,031	118,216
Total Resources (in-flows)	<u>23,310,114</u>	<u>23,310,114</u>	<u>19,702,985</u>	<u>(3,607,129)</u>
Amounts Available for Appropriation	26,200,889	28,422,389	32,607,381	
Charges to Appropriations (out-flows)				
General Government	151,393	151,393	158,018	(6,625)
Transportation	26,998,657	27,343,101	17,510,953	9,832,148
Capital Expenditures	328,000	1,307,500	2,313,403	(1,005,903)
Transfers Out	236,796	2,486,796	2,865,616	(378,820)
Amount Charged to Appropriations (out-flows)	<u>27,714,846</u>	<u>31,288,790</u>	<u>22,847,990</u>	<u>8,440,800</u>
Budgeted Fund Balance, December 31	<u>\$ (1,513,957)</u>	<u>\$ (2,866,401)</u>	<u>\$ 9,759,391</u>	

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON

Statement of Net Assets

Proprietary Funds

December 31, 2009

	Business-Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
ASSETS				
<u>Current Assets</u>				
Cash/Cash Equivalents	\$ 2,147,954	\$ 2,792,567	\$ 4,940,521	\$ 10,434,111
Accounts Receivable, Net	734,043	58,882	792,925	7,485
Due From Other Funds	0	0	0	1,111,997
Due from Other Governments	23,890	0	23,890	32,614
Inventories/Prepayments	42,708	7,906	50,614	4,980,377
Total Current Assets	2,948,595	2,859,355	5,807,950	16,566,584
<u>Non-Current Assets</u>				
Capital Assets				
Land	595,379	197,681	793,060	-
Buildings	1,488,591	-	1,488,591	180,888
Improvements	1,354,796	4,756,541	6,111,337	-
Machinery and Equipment	495,502	5,969	501,471	16,651,690
Less Accumulated Depreciation	(2,749,960)	(983,932)	(3,733,892)	(8,181,944)
Construction In Progress	-	512,318	512,318	-
Unamortized Debt Issuance Costs	16,193	-	16,193	-
Total Non-Current Assets	1,200,501	4,488,577	5,689,078	8,650,634
Total Assets	4,149,096	7,347,932	11,497,028	25,217,218
LIABILITIES AND FUND EQUITY				
<u>Current Liabilities</u>				
Accounts/Vouchers Payable	457,557	49,534	507,091	3,444,486
Due to Other Funds	9,199	8,026	17,225	986,122
Interest Payable	9,664	-	9,664	-
Interfund Loans Payable	-	-	-	19,000
Accrued Wages Payable	52,626	20,502	73,128	119,806
Accrued Employee Benefits	22,355	8,663	31,018	43,975
Accrued Taxes Payable	0	-	0	0
Other Accrued Liabilities	350,616	-	350,616	50,000
Bonds Payable	765,000	-	765,000	-
Total Current Liabilities	1,667,017	86,725	1,753,742	4,663,389
<u>Non-Current Liabilities</u>				
Compensated Absences	64,813	22,194	87,007	\$222,936
Post Closure Landfill Costs	3,186,737	-	3,186,737	-
Environmental Liability	1,202,129	-	1,202,129	67,295
Bonds Payable	2,381,851	-	2,381,851	-
Total Non-Current Liabilities	6,835,530	22,194	6,857,724	290,231
Total Liabilities	8,502,547	108,919	8,611,466	4,953,620
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	(3,896,553)	4,488,578	592,025	8,650,634
Unrestricted	(456,898)	2,750,435	2,293,537	11,612,964
Total Net Assets	\$ (4,353,451)	\$ 7,239,013	\$ 2,885,562	\$ 20,263,598

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, 2009

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
<u>Operating Revenues</u>				
Charges for Services	\$ 7,967,277	\$ 1,752,705	\$ 9,719,982	\$ 11,228,458
Other Operating Revenue	-	-	-	10,034,016
Total Operating Revenues	<u>7,967,277</u>	<u>1,752,705</u>	<u>9,719,982</u>	<u>21,262,474</u>
<u>Operating Expenses</u>				
Personnel Services	1,628,668	532,106	2,160,774	4,563,950
Contractual Services	4,730,938	-	4,730,938	1,750,828
Supplies and Expenses	1,321,763	927,151	2,248,914	6,146,479
Depreciation	42,454	166,792	209,246	1,151,238
Payment to Claimants	-	-	-	8,137,816
Total Operating Expenses	<u>7,723,823</u>	<u>1,626,049</u>	<u>9,349,872</u>	<u>21,750,311</u>
Operating Income (Loss)	<u>243,454</u>	<u>126,656</u>	<u>370,110</u>	<u>(487,837)</u>
<u>Non-Operating Revenue (Expenses)</u>				
Intergovernmental Revenue	451,792	33,925	485,717	-
Interest Revenue	23,528	20,974	44,502	27,236
Miscellaneous Revenue	6,148	48	6,196	14,066
Gain (Loss) on Disposition of Capital Assets	-	-	-	(103,250)
Interest Expense	(164,127)	-	(164,127)	-
Miscellaneous Expense	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>317,341</u>	<u>54,947</u>	<u>372,288</u>	<u>(61,948)</u>
Income (Loss) before Transfers	560,795	181,603	742,398	(549,785)
Transfers In	-	98,948	98,948	190,389
Transfers Out	-	(15,003)	(15,003)	(19,212)
Change in Net Assets	<u>560,795</u>	<u>265,548</u>	<u>826,343</u>	<u>(378,608)</u>
Net Assets, January 1	(5,503,915)	6,973,465	1,469,550	19,991,155
Prior Period Adjustment	589,669	-	589,669	651,051
Net Assets, January 1, as Restated	<u>(4,914,246)</u>	<u>6,973,465</u>	<u>2,059,219</u>	<u>20,642,206</u>
Net Assets, December 31	<u>\$ (4,353,451)</u>	<u>\$ 7,239,013</u>	<u>\$ 2,885,562</u>	<u>\$ 20,263,598</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	Business - Type Activities Enterprise Funds			Governmental Activities
	Solid Waste	Drainage Utility	Total	Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 7,965,300	\$ 1,724,897	\$ 9,690,197	\$ 1,339,756
Receipts from Interfund Services Provided	-	7,686	7,686	18,917,554
Payments to Employees	(1,620,448)	(508,795)	(2,129,243)	(4,158,406)
Payments to Suppliers	(5,215,973)	(652,180)	(5,868,153)	(6,403,381)
Payments to Claimants	-	-	-	(7,875,114)
Payments for Interfund Services Used	(1,239,240)	(241,687)	(1,480,927)	(820,371)
Miscellaneous Receipts	6,147	48	6,195	26,165
Net Cash Provided (Used)	<u>(104,214)</u>	<u>329,969</u>	<u>225,755</u>	<u>1,026,203</u>
Cash Flows From Non-Capital Financing Activities:				
Operating Grants Received	592,457	\$51,242	\$643,699	(19,212)
Transfers to Other Funds	-	83,945	83,945	190,389
Net Cash Provided (Used)	<u>592,457</u>	<u>135,187</u>	<u>727,644</u>	<u>171,177</u>
Cash Flows from Capital and Related Financing Activities:				
Capital Grant Received	-	-	-	7,859
Purchases of Capital Assets	-	(266,545)	(266,545)	(1,034,567)
Proceeds from Sale of Capital Assets	-	-	-	(95,390)
Principal Paid on Capital Debt	(735,000)	-	(735,000)	-
Interest Paid on Capital Debt	(142,775)	-	(142,775)	-
Net Cash Provided (Used)	<u>(877,775)</u>	<u>(266,545)</u>	<u>(1,144,320)</u>	<u>(1,122,098)</u>
Cash Flows from Investing Activities:				
Sale of Investments	-	-	-	-
Interest Earnings	23,528	20,974	44,502	27,236
Net Cash Provided	<u>23,528</u>	<u>20,974</u>	<u>44,502</u>	<u>27,236</u>
Net Change in Cash and Cash Equivalents	(366,004)	219,585	(146,419)	102,518
Balance, January 1	2,513,958	2,572,982	5,086,940	10,331,593
Balance, December 31	<u>\$ 2,147,954</u>	<u>\$ 2,792,567</u>	<u>\$ 4,940,521</u>	<u>\$ 10,434,111</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	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)	\$ 243,454	\$ 126,656	\$ 370,110	\$ (487,837)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	42,454	166,791	209,245	1,151,238
Miscellaneous Receipts	6,148	48	6,196	(287,712)
Changes in Assets and Liabilities:				
Receivables, Net	(1,977)	(20,122)	(22,099)	(993,065)
Prepayments	(10,473)	545	(9,928)	(5,318)
Inventories	-	-	-	(114,412)
Accounts and Other Payables	(383,820)	56,051	(327,769)	1,763,309
Net Cash Provided (Used) by Operating Activities	<u>\$ (104,214)</u>	<u>\$ 329,969</u>	<u>\$ 225,755</u>	<u>\$ 1,026,203</u>

See accompanying notes to the financial statements

SKAGIT COUNTY, WASHINGTON
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31,2009

	Agency Funds
ASSETS	
Cash	\$ 27,112,361
Investments	193,868,003
Taxes Receivable	2,220,890
Deposits	10,000
Total Assets	\$223,211,254
 LIABILITIES	
Warrants Payable	\$21,042,494
Custodial Accounts	202,168,758
Total Liabilities	\$ 223,211,252

See accompanying notes to the financial statements

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 units, the Skagit County Emergency Medical Services Commission (EMS.) and Central Valley Ambulance Community (CVAA).

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 #O20030003 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. As of July 1, 2009, EMS no longer directly provided emergency medical services in Central Skagit County as per Ordinance #O20090003 adopted by Board of County Commissioners.

The Central Valley Ambulance Commission was established in April 2009 by Ordinance #O20090004 pursuant to the RCW 35.21.730 and Resolution # R20090255 established a separate fund June 2009. Central Valley Ambulance Authority is a component unit of Skagit County and began its operations July 1, 2009. Central Valley Ambulance Authority is a governmental agency providing emergency medical care and transportation services to the citizens of Skagit County, mainly their response coverage area.

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

Government-Wide and Fund Financial Statements

Skagit County, Washington
Notes to the Financial Statements
December 31, 2009

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.

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, Washington
Notes to the Financial Statements
December 31, 2009

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.

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

Skagit County, Washington
Notes to the Financial Statements
December 31, 2009

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.

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.

Skagit County, Washington
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Capital Assets – see note IV

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 – 5 to 40 years;
- Improvements – 15 to 40 years;
- Furniture and Equipment – 3 to 25 years;
- Information Technology Equipment – 5 years;
- Vehicles – 5 to 25 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 fund 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 a required length of

Skagit County, Washington
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December 31, 2009

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	\$566,254,886
Less Accumulated Depreciation	(196,529,538)
Construction in Progress	629,814
Net Capital Assets	<u>\$370,355,162</u>

Long-Term Liabilities

Bonds Payable	\$14,655,000
Unamortized Bond Issuance Costs	(344,087)
Unamortized Bond Discounts/Premiums	28,647
Loans Payable	3,887,072
Compensated Absences Liability	2,298,451
OPEB Liability	186,627
Accrued Interest Payable on Long Term Liabilities	105,799
Long Term Liabilities	<u>\$20,817,508</u>

Skagit County, Washington
Notes to the Financial Statements
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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	\$ 10,095,239
Depreciation Expense	(16,496,751)
Donated Assets	<u>394,462</u>
Net Capital Asset Activity	<u>\$ (6,007,050)</u>

Net Long -Term Debt Activity

Proceeds of Long Term Debt	\$ (389,608)
Principal Payments	1,017,081
Amortization of Bond Discounts/Premiums	(32,846)
Amortization of Bond Issuance Costs	(26,468)
Change in Compensated Absences Liability	119,172
Change in OPEB Liability	<u>(112,386)</u>
Net Long -Term Debt Activity	<u>\$574,944</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, Washington
Notes to the Financial Statements
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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.
- 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, 2009:

The Hansen Creek Sub-Flood Control Zone Fund deficit was \$35,994. Operating assessments being collected from property owners in this zone will resolve the deficit by December of 2013.

The Solid Waste Fund deficit was \$4,353,451. This results primarily from the recording of liabilities for landfill post closure care costs and environmental remediation costs.

The Facility Improvement fund deficit was \$3,131,965. This results primarily from new facility purchases and remodels.

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 \$36,617,315 and the treasurer's bank balance was \$2,695,577, 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 \$250,000 and the Washington Public Deposit Protection Commission insures amounts over \$100,000. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except certain retirement accounts, which will remain at \$250,000 per depositor.

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. Net investment income is allocated monthly to participants and is based on their average proportionate share of net assets in relation to the total net investment income for the LGIP for that month. Allocations are reinvested in the LGIP.

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.

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As of December 31, 2009, the County held the following investments:

Investment Type	Fair Value	Year Maturity	1 Year	2 Years	3 Years
Certificates of Deposit	\$ 24,122,562	\$ 17,595,071	\$ 6,206,062	\$ -	\$ 321,429
Money Market	12,494,753	12,494,753	-	-	-
Registered Warrants	516,193	516,193	-	-	-
Commercial Paper	1,499,606	1,499,606	-	-	-
Treasury Bills	99,996	99,996	-	-	-
Treasury Notes	1,205,510	706,916	-	498,594	-
Municipal Bonds	3,567,183	497,402	2,249,486	820,294	-
U.S. Agencies	78,129,046	16,628,570	15,806,738	42,348,240	3,345,499
State Treasurer Pool	151,002,961	151,002,961	-	-	-
	\$ 272,637,810	\$ 201,041,468	\$ 24,262,286	\$ 43,667,128	\$ 3,666,928

Total Fair Value of investments represents \$76,945,171 for Skagit County and \$195,692,639 for the Junior Taxing districts.

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.

Custodial Credit Risk

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the County would not be able to cover the value of the investment or collateral securities. The County had no custodial credit risk as of December 31, 2009.

Credit Risk

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

As of December 31, 2009, the County's investments in U.S. Agencies in the amount of \$76,317,076 (fair value) was rated AAA by Standard & Poor's, an additional amount of \$268,448 (fair value) was rated Aaa by Moody's.

Skagit County, Washington
Notes to the Financial Statements
December 31, 2009

Details of ratings on investments in municipal bonds and banker's acceptances are as follows:

Investment Type	Fair Value	Standard & Poor's	Moody's	Fitch
Municipal Bonds				
Hoboken, NJ Series B	\$ 99,966	AAA	Aaa	-
State of California	200,222	A+	A1	A+
Port of Camas, WA	174,656	AAA	Aaa	
Gastonia, NC Series B	173,456	AA-	A1	AA-
NY Capital Appreciation	172,555	AA	Aa3	AA-
LaCrosse Wisc	240,662	AA-	A1	
Chicago, IL	308,733	AAA	AA3	AAA
Pierce Co, WA Fire	206,417	AA-		
Douglas Co Ore Sch Dist	121,486	A+	A1	A+
Silver Lk Wtr & Sewer	101,529	AAA	-	AA-
Richland Water & Sewer	202,606	AA	Stable	
Sk Co Public Utility	101,700	A1	Aa2	
King Co WA Sch 411	323,635	AA1		AAA
Richland Elec-BABS	119,899	AA	Stable	
Wa State CTFS	252,498		Aa2	-
Sk Co Wa School 320	103,031	A2	Aa1-	
Lynnwood WA	147,983	AA		
Lynnwood WA	135,039	AA		
Hawaii State	75,728	AA	Coll W Govt	-
Charlotte NC	305,382	AAA	Stable	AAA
Total Municipal Bonds	<u>3,567,183</u>			

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 per cent 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 per cent may be invested in any one Treasury obligation. As of December 31, 2009, the investment in the Washington State Local Government Investment Pool was limited to 65%, this was modified by resolution on March 16th, 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 1st of each year. Collection of taxes is authorized on February 15th, with installments due on April 30th and October 31st. On May 31st 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
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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. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The County may levy up to \$1.80 per \$1,000 of assessed valuation for general governmental services, 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.

2009 tax levy information is as follows:

Year/Entity	Levy In Dollars Assessed Per Thousand	Total Value	Levy
2009			
County	\$ 1.2139	\$ 16,868,200,169	\$ 20,476,308
Medic 1 Services	0.2273	16,846,530,892	3,829,216
Roads	1.3919	8,366,672,406	11,645,571
Conservation Futures	0.0426	16,868,200,169	718,585

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.

Skagit County, Washington
Notes to the Financial Statements
December 31, 2009

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, 2009 is as follows:

	Unavailable	Unearned	Total
Property Taxes Receivable (General Fund)	\$852,373	\$ -	\$852,373
Property Taxes Receivable (Road Fund)	371,718	-	371,718
Property Taxes Receivable (Mental Health Fund)	11,509	-	11,509
Property Taxes Receivable (Other Governmental Funds)	234,518	-	234,518
Revenue earned but not yet available	1,654,037		1,654,037
Revenue received prior to meeting a lliability requirements	-	557,389	557,389
Total Deferred Revenue for Governmental Funds	<u>\$3,124,155</u>	<u>\$557,389</u>	<u>\$3,681,544</u>

C. Interfund Receivables, Payables and Transfers

Details of interfund payable/receivable balances as of December 31, 2009 are as follows:

Due to Other Funds	Due from Other Funds				Total
	General Fund	Other Governmental Funds	Internal Service Funds	Drainage Utility	
Mental Health	\$ -	\$ -	\$ -	\$ -	-
Facility Improvement	-	-	-	-	-
Non-Major Governmental Funds	25,906	902	1,111,997	-	1,138,805
Solid Waste	-	604	-	-	604
Total	\$25,906	\$1,506	1,111,997	\$0	1,139,409

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 1/1/2009	New Loans	Repayment	Balance 12/31/2009
Clean Water Program	General Fund	\$ -	\$ 30,000	\$30,000	\$ -
Substance Abuse Svcs	General Fund		70,000	70,000	
Britt Slough Flood Control	General Fund	44,000	500	44,500	-
Hansen Creek Sub Flood	General Fund	56,000	7,500	30,000	33,500
Lake Management No. 1	General Fund	16,500	20,000	36,500	-
Lake Management No. 4	General Fund	75,000	500	75,500	-
Drainage Utility	General Fund	28,000			28,000
Solid Waste	General Fund	232,500			232,500
Edison Clean Water	General Fund	3,000			3,000
Facility Improvement	Gnrl Fund/Cap Facilities	431,000	4,639,000	70,000	5,000,000
Internal Service Fund	General Fund		19,000		19,000
	Total	<u>\$886,000</u>	<u>\$ 4,786,500</u>	<u>\$356,500</u>	<u>\$5,316,000</u>

Skagit County, Washington
Notes to the Financial Statements
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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 2009 transfers are as follows:

Transfers Out	Transfers In					Total
	General Fund	Mental Health	Facility Improvement	Drainage Utility	Non-Major Governmental	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 4,057,877	\$ 4,057,877
Mental Health	18,279	-	-	-	590,075	608,354
County Roads	-	-	2,095,166	-	770,450	2,865,616
Non-Major Governmental	-	3,940	-	98,948	1,607,346	1,710,234
Total	\$ 18,279	\$ 3,940	\$ 2,095,166	\$ 98,948	\$ 7,025,748	\$ 9,242,081

D. Capital Assets

Summarized capital asset transactions for governmental activities are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, Non-depreciable				
Land	\$18,375,096	-	\$ -	18,375,096
Development rights	8,829,370	1,667,745	-	10,497,115
Capital asset held for resale	392,956	-	-	392,956
Construction in progress	2,477,062	221,700	(2,068,949)	629,813
	30,074,484	1,889,445	(2,068,949)	29,894,980
Depreciable Capital Assets				
Buildings	46,298,301	6,300,655	-	52,598,955
Improvements	7,255,775	81,639	(157,443)	7,179,972
Machinery and equipment	22,390,229	1,683,392	(2,160,587)	21,913,034
Infrastructure	467,869,083	4,261,256	-	472,130,339
	543,813,388	12,326,942	(2,318,030)	553,822,300
Less accumulated depreciation:				
Buildings	(17,461,278)	(1,106,149)	-	(18,567,426)
Improvements	(3,689,778)	(302,282)	260,343	(3,731,717)
Machinery and equipment	(13,922,614)	(1,882,181)	3,101,456	(12,703,339)
Infrastructure	(179,699,612)	(14,979,120)	24,969,732	(169,709,000)
	(214,773,282)	(18,269,732)	28,331,531	(204,711,483)
Total Net Depreciable Capital Assets	329,040,105	(5,942,790)	26,013,501	349,110,816
Total Net Capital Assets	\$359,114,590	(\$4,053,345)	\$23,944,552	\$379,005,797

Depreciation expense by function for governmental activities is as follows:

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Notes to the Financial Statements
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General Governmental Services	\$878,064
Public Safety	656,375
Physical Environment	-
Transportation	16,281,279
Economic Environment	17,831
Mental and Physical Health	111,952
Culture and Recreation	377,096
Total governmental activities depreciation expense	<u>\$18,322,597</u>

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

Business - Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, Non-depreciable				
Land	\$639,309	153,750	\$ -	\$793,059
Construction in progress	564,293	292,394	(344,369)	512,318
	<u>1,203,602</u>	<u>446,144</u>	<u>(344,369)</u>	<u>1,305,377</u>
Depreciable Capital Assets				
Buildings	1,825,299	942,700	(1,279,407)	1,488,591
Improvements	4,557,455	1,561,460	(7,577)	6,111,338
Machinery and equipment	623,746	-	(122,275)	501,471
	<u>7,006,500</u>	<u>2,504,160</u>	<u>(1,409,259)</u>	<u>8,101,400</u>
Less accumulated depreciation:				
Buildings	(1,776,573)	(525,872)	1,274,999	(\$1,027,446)
Improvements	(859,341)	(1,413,819)	1,997	(2,271,162)
Machinery and equipment	(548,271)	(9,288)	122,275	(435,284)
	<u>(3,184,185)</u>	<u>(1,948,979)</u>	<u>1,399,271</u>	<u>(3,733,892)</u>
Total Net Depreciable Capital Assets	<u>3,822,315</u>	<u>555,181</u>	<u>(9,988)</u>	<u>4,367,508</u>
Total Net Capital Assets	<u>\$5,025,918</u>	<u>\$1,001,325</u>	<u>\$(354,357)</u>	<u>\$5,672,885</u>

Depreciation expense by function for business type activities is as follows:

Solid Waste	42,454
Drainage Utility	166,792
Total business type activities depreciation expense	<u>\$209,246</u>

Skagit County, Washington
Notes to the Financial Statements
December 31, 2009

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, 2009 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 \$16,940 were made in 2009.	\$300,000
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 \$155,000 and interest payments of \$61,313 were made in 2009.	1,495,000
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 \$20,000 and interest payments of \$3,600 were made in 2009.	80,000
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 \$285,000 and interest payments of \$273,573 were made in 2009.	6,825,000

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Notes to the Financial Statements
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<u>Description</u>	<u>Balance</u>
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 \$233,953 were made in 2009.	5,955,000
Total bonds payable at December 31, 2009 for governmental activities	\$14,655,000
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 \$735,000 and interest payments of \$142,775 were made in 2009.	\$3,225,000
Total bonds payable at December 31, 2009 for business-type activities	\$3,225,000

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
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	950,000	421,736	-	-
2015-2019	4,460,000	1,540,239	-	-
2020-2024	4,350,000	671,413	-	-
2025-2026	1,050,000	84,000	-	-
Totals	\$14,655,000	\$4,776,581	\$3,225,000	\$301,825

Skagit County, Washington
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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 2009 financial statements. As of the December 31, 2009 the balance of the defeased bonds outstanding is \$5,735,000.

Loans Payable

Detail of loans payable as of December 31, 2009 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 2009.	\$168,797
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 2009.	41,267
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 2009.	680,000
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 \$69,698 and interest payments of \$21,931 were made in 2009.	1,405,141
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.	1,584,959
Total loans payable at December 31, 2009 for governmental activities	<u><u>\$3,880,164</u></u>

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2010	148,133	20,878
2011	149,202	19,809
2012	181,749	44,340
2013	215,545	67,623
2014	218,342	64,826
2015-2019	1,126,954	280,002
2020-2024	953,713	200,339
2025-2029	684,854	115,001
2030-2031	201,672	26,642
	<u><u>\$3,880,164</u></u>	<u><u>\$839,460</u></u>

Debt Limitation

Skagit County, Washington
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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 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, 2009, the county's remaining capacity for non-voted debt was \$228,698,918. Additional debt capacity with an authorizing vote is \$159,895,757.

Changes in Long-Term Liabilities

Details of changes in long term liabilities for the year ended December 31, 2009, is as follows:

	Beginning Balance	New Issue	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$15,525,000	\$	\$870,000	\$14,655,000	\$910,000
Add: Net Unamortized Discounts/Premiums	29,110		463	28,647	
Total Bonds Payable	15,554,110		870,463	14,683,647	910,000
Loans Payable	3,637,637	389,607	147,080	3,880,164	148,133
Note Payable	13,426		6,518	6,908	6,908
Compensated Absences	2,354,081	3,839,289	3,671,982	2,521,388	
OPEB Liability	305,799		119,172	186,627	
Environmental Liabilities	119,800		2,505	117,295	50,000
Total Long-Term Liabilities	\$21,984,853	4,228,896	4,817,720	21,396,029	1,115,041

Changes in Long-Term Liabilities

	Beginning Balance	New Issue	Retirements	Ending Balance	Due Within One Year
Business-Type Activities:					
Bonds Payable					
General Obligation Bonds	\$3,960,000	\$	\$735,000	\$3,225,000	\$765,000
Discounts/ Premiums	17,405		3,481	13,924	
Less: Unamortized Refunding Costs	(115,092)		(23,018)	(92,074)	
	3,862,313		715,463	3,146,850	\$765,000
Compensated Absences	65,956	237,446	216,394	87,007	
Post Closure Landfill Costs	3,534,229		175,876	3,358,352	171,616
Environmental Liability	1,671,299		290,170	1,381,129	179,000
Total Long-Term Liabilities	\$9,133,797	\$237,446	\$1,397,903	\$7,973,339	\$1,115,616

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

VI. PENSION AND OTHER BENEFIT PLANS

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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,

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),

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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 benefits structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service were earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 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

Beginning January 1, 2007 through December 31, 2007, members 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.

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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 2,300 participating employers in PERS. Details of PERS membership as of the latest actuarial valuation date of June 30, 2009 is as follows:

<u>Description</u>	<u>Members</u>
Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to but not yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
Total	<u><u>262,057</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 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.

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The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2009, were as follows:

Rates for members not participating in JBM are as follows:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%	5.31%	5.31%**
Employee	6.00%	3.90%	***

*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:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%	5.31%	5.31%**
Employee	12.26%	9.75%	7.50%***

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

**Plan 3 defined benefit portion only.

***Minimum rate.

Both Skagit County and its employees have made the required contributions to the plan. Details of these contributions for the years ending December 31 are as follows:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$114,146	\$1,707,116	\$430,908
2008	\$158,239	\$1,815,233	\$468,963
2007	144,028	1,345,454	304,255

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.

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Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and 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 451 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of June 30, 2009:

<u>Description</u>	<u>Amount</u>
Retirees and Beneficiaries Receiving Benefits	9,268
Terminated Plan members Entitled to but not yet Receiving Benefits	650
Active Plan Members Vested	13,120
Active Plan Members Non-vested	3,927
Total	<u><u>26,965</u></u>

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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, 2009, were as follows:

Contributor	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%
Employee	0.00%	8.46%

*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:

Year	LEOFF Plan 1	LEOFF Plan 2
2009	\$35	\$249,535
2008	\$96	\$203,279
2007	100	189,021

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.

PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria (outlined below), and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria. A covered employer is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections, Department of

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Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties, and Washington state cities except for Seattle, Tacoma, and Spokane.

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 302 participating employers in PSERS. There were 3982 active non-vested plan members as of the latest actuarial valuation date of June 30, 2009.

<u>Description</u>	<u>Amount</u>
Retirees and Beneficiaries Receiving Benefits	1
Active Plan Members Non-vested	3,981
Total	<u>3,982</u>

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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 levels established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009 were as follows:

Contributor	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

*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:

Year	PSERS Plan 2
2009	\$132,608
2008	\$124,059
2007	85,209

D. Other Post Employment Benefit Plans (OPEB)

State law requires the County to pay medical and nursing care costs for LEOFF Plan 1 retirees. Authority for changes in benefits for the LEOFF Plan 1 resides with the Washington state law and the Employee Retirement Benefits Board (ERBB). Members of the ERBB are appointed by the Governor.

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.

We have used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.22 was assumed for all active members for the purpose of determining 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

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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 actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are considered individually and collectively reasonable for the purposes of this valuation. The alternative measurement used in the 2008 financial statements was used again in the 2009 financial statements, as authorized by GASB Statement No. 45.

The following table illustrates the components of the May 13, 2009, 30 year amortization period actuarial study.

Further Breakdown of Key Results		
	<u>PVFB</u>	<u>AAL</u>
<u>Active:</u>		
<u>Medical Expenses</u>	\$268,778	\$231,375
<u>Long-Term Care</u>	\$68,815	\$59,239
<u>Total Active</u>	\$337,593	\$290,614
<u>Inactive:</u>		
<u>Medical Expenses</u>	\$3,074,058	\$3,074,058
<u>Long-Term Care</u>	\$1,209,411	\$1,209,411
<u>Total Inactive</u>	\$4,283,469	\$4,283,469
<u>Total</u>	\$4,621,062	\$4,574,083
<u>ARC</u>		
<u>Normal Cost UAAL</u>	\$39,595	
<u>Amortization</u>	\$425,910	
<u>ARC</u>	\$465,505	
<u>Annual OPEB Cost</u>		
<u>ARC</u>	\$465,505	
<u>NOO Interest</u>	\$0	
<u>NOO Amortization</u>	\$0	
<u>Annual OPEB Cost</u>	\$465,505	

Annual OPEB costs \$465,505 less expenses \$278,878 net OPEB obligation \$186,627

The actual expense constitutes 40% of the ARC. The County's actuarial accrued liability (AAL) of \$4,574,084 was unfunded as of December 31, 2009.

VII. RISK MANAGEMENT

Liability Insurance

Skagit County was one of the twenty-eight members of the Washington Counties Risk Pool ("Pool") during 2009. Other members included: Adams, Benton, Chelan, Clallam and Clark, Columbia, Cowlitz, Douglas and Franklin, Garfield, Grays Harbor, Island and Jefferson, Kitsap, Kittitas, Lewis and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Klickitat and Whitman Counties were former Pool members, but terminated their memberships effective October 2002 and 2003 respectively.

The Pool was formed August 18, 1988 when several Washington counties signed an Interlocal (Cooperative) Agreement. It was established to provide its member counties with "joint" programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling and risk management. The Pool operates under Washington's "pooling" laws, more specifically Chapters 48.62 RCW and 82.60 WAC and implemented via Chapter 39.34 RCW. It is overseen by the State Risk Manager and is subject to fiscal audits performed annually by the State Auditor.

The enabling Interlocal Agreement was amended once in 2000 to add the Membership Compact, a commitment to strengthen the Pool by helping its member counties implement and/or enhance local risk management efforts to reduce losses and support the best management of the Pool and its resources. The Compact established obligations to support these goals through three major elements; membership involvement, risk control practices, and a targeted risk management program.

The Pool's mission is: To provide comprehensive and economical risk coverage; to reduce the frequency and severity of losses; and to decrease costs incurred in the managing and litigation of claims. The Pool's core values include: being committed to learn, understand and respond to the member counties' insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool's board of directors and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

New members are required to pay the Pool modest admittance fees to cover the members' share of organizational expenses and the costs to analyze their loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The Pool is governed by a board of directors consisting of one director (and at least one alternate director) designated by each member county. The Pool's board of directors, made up

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of both elected and appointed county officials, meets three times each year with the summer meeting being the Annual Meeting. The board of directors is responsible for determining the 3rd-party liability coverage to be offered (approving the insuring agreement or coverage document), the reinsurance program to acquire, the excess insurances to be jointly purchased or offered for optional purchase, and approving the Pool's annual operating budgets and work programs, and the member deposit assessment formulas.

Regular oversight of the Pool's operations is furnished by an 11-person executive committee. The committee persons are elected by the Pool's board of directors from its membership to staggered 3-year terms during each Annual Meeting. The committee meets several times throughout the year to approve all Pool disbursements and examine the Pool's financial health; to approve case settlements exceeding the members' deductibles by at least \$50,000 and to review all claims with incurred loss estimates exceeding \$100,000; to evaluate the Executive Director and the Pool's operations and program deliverables; and to participate in the board's standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization's policies and coverage documents.

The following constitute the highlights from the Pool's most recently completed Policy (Fiscal Year (October 2008 through September 2009):

- *Operating Income* was experienced during the year of \$1.15 million, a 40% increase from FY-2008.
- *Interest Income* slipped to just \$0.22 million (-65%) due to the nearly non-existent interest rates associated with the national and worldwide recession.
- *Total Assets* grew by \$4.64 million (15%) to more than \$35.71 million. Specifically, current assets increased \$4.69 million (16%) while non-current assets decreased \$0.05 million (-4%).
- 966 cases were added to the Risk Pool's claims-related database during the year which raised the to-date (Oct. 1988 – Sep. 2009) total of third-party liability claims and lawsuits submitted by WCRP member counties to 16,470. Only 492 cases remained classified as "open" at year's end. Independent actuarial estimates suggest another 553 claims may be filed for covered occurrences from all years-to-date through September 2009.
- *Net Assets* (also referred to as *Members' Equity*) increased nearly \$1.38 million to more than \$8.16 million at September 30, 2009. \$6.35 million is classified as 'Restricted' to satisfy the Section D provisions of the WCRP Underwriting Policy that were enhanced by the Board of Directors in March 2007. Another \$1.06 million is invested in *Capital Assets* (net of debt). The remaining \$0.76 million is listed as 'Non-Restricted' and is available. The WCRP Board of Directors is the authority to decide if, how much, and when distributions of any (Non-Restricted) *Net Assets* are to be made.

Professionals from some of the most respected organizations worldwide are called upon regularly to address specific needs of the Pool. For example, independent actuarial services are furnished by PricewaterhouseCoopers, LLP; insurance brokerage and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; coverage counsel is provided by Stafford Frey Cooper; and special claims audits are frequently performed

Skagit County, Washington
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by the Pool's insurers and re-insurers. These professionals are in addition to them any contracted and in-county counselors assigned to defend Pool cases, as well as the ongoing oversight provided by the State Risk Manager and the annual financial audits performed by the State Auditor.

Over half of the Pool's 9-person staff handles and/or manages the several hundred liability cases filed upon and submitted by the Pool's member counties each year. These claims professionals have more than eighty years combined claims-handling experience. The Pool's "open" file count remains fairly constant between 400 and 500 cases. Other staffers provide various member services including conducting risk assessments and compliance audits, coordinating numerous trainings, researching other coverage and marketing, with some simply supporting the organization's administrative needs.

Pool member counties presently acquire \$20 million (with another \$5 million optional) of joint liability coverage on a "per occurrence" basis for 3rd-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, and includes public officials' errors and omissions. Annually, members select a per occurrence deductible amount of \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. The initial \$10 million of coverage, less the retention (the greater of the member's deductible or \$100,000), is fully reinsured by superior-rated commercial carriers. The remaining insurance, up to \$15 million, is acquired from superior-rated commercial carriers as "following form" excess insurance. There are no aggregate limits to the payments made for any one member county or all member counties combined.

Property insurance, with composite limits of \$500 million for normal ("All Other Perils") coverage and \$250 million for catastrophe coverage and participant deductibles between \$5,000 and \$50,000, was added to the Pool coverage lines a few years ago as an individual county option. Coverage is for structures, vehicles, mobile equipment, EDP equipment, and equipment breakdown, etc. Participants are responsible for their claims' deductibles. The commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. Twenty-six counties purchased this program during 2009.

Additionally, many members use the Pool's producer (broker) services for other insurance placements, e.g. public officials bonds, and crime & fidelity, special events/concessionaires, and environmental hazards coverage.

The Washington Counties Risk Pool is a cooperative program, so there is joint liability amongst its participating members. Contingent liabilities are established when assets are not sufficient to cover liabilities. Pool member counties are required to timely submit their 3rd-party liability claims which are handled by the Pool's staff. This includes establishing reserves for both reported and unreported covered events, as well as estimates of the undiscounted future cash payments for losses and related claims adjustment expenses. Deficits resulting from any Pool fiscal year are financed by proportional reassessments against that year's membership. **The Pool's reassessments receivable balance at December 31, 2009 remains at ZERO.**

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The following schedule details the current year's and the prior two year's claims liability activity:

Fiscal Year	Beginning Balance	Current Year Claims & Changes in Estimate	Claim Payments	Year End Balance
2007	281,916	446,936	301,977	426,875
2008	426,875	770,534	128,020	1,069,389
2009	1,069,389	659,452	98,727	1,630,114

Other Insurance

Employee on -the-job i njuries ar e c overed by industrial i nsurance t hrough the State of Washington Department of Labo r & I ndustries (L&I). A ll em ployees and s ome v olunteers, except LE OFF-1 m embers and ferry crewmembers, are covered to s tatutory l imits. Industrial insurance (L&I) rates are occupation and experience based, with base premiums adjusted for individual entity claims experience. The experience modification multiplier for 1.1282 in 2007, and 1.1825 in 2008, and 1.1562 in 2009.

Skagit Co unty is s elf-insured for unemployment claims. These claims are pr ocessed by t he Washington State Department of Employment Security and the county is billed for them on a quarterly bas is. The County has es tablished an U nemployment C ompensation Fund which charges other County funds based on estimates of future claims, and pay s the claims when they are billed. T he U nemployment Compensation Fund had net assets of \$(116,236) at December 31, 2009.

The County is self-insured for dental insurance claims. Washington Dental Services serves as the third par ty adm inistrator and bi lls t he C ounty f or c laims pai d. Administrative f ees and charges paid to Washington Dental Service totaled \$83,860 for 2009. Dental claims activity for 2009 and the preceding two years is as follows:

Fiscal Year	Beginning Balance	Current Year Claims & Changes in Estimate	Claim Payments	Year End Balance
2007	\$103,338	\$733,387	\$726,892	\$109,833
2008	109,833	728,401	728,899	109,335
2009	109,335	781,120	774,309	116,146

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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 \$336,574 for 2009. Medical claims activity for 2009 and the preceding two years is as follows:

Fiscal Year	Beginning Balance	Current Year Claims & Changes in Estimate	Claim Payments	Year End Balance
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
2009	1,142,970	6,514,202	6,560,418	1,096,754

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, 2009, there have been no loans made by the County to the Public Facilities District.

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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, 2009 are as follows:

	Rental
Year	Payments Due
2010	191,722
2011	92,637
2012	42,615
2013	1,419
Total	<u>\$328,393</u>

2009 rent expense for all operating leases, except those with terms of a month or less that were not renewed was \$55,002.

Construction

At December 31, 2009, the County had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

	Total	Expended to	Balance
	Contracts	12/31/09	Unexpended
Governmental Activities			
Road Fund	2,410,575	325,219	2,085,356
Total Governmental Activities	<u>\$ 2,410,575</u>	<u>\$ 325,219</u>	<u>\$ 2,085,356</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 \$3,186,737 is reported in the solid waste fund at December 31, 2009.

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

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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 \$601,789 for the Whitmarsh Landfill site and \$779,340 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 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 \$67,295 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

Road Fund – A construction billing in the amount of \$16,051 was expensed in 2005 when it should have been paid against an accrual account.

Park Improvement Fund – Over a number of years the grant revenue accruals were not properly reversed and/or calculated. This resulted in an overstated revenue receivable amount of \$146,912.

Equipment Rental and Revolving Fund – The calculation for ER&R depreciation since 1998 was incorrectly done resulting in a cumulative amount of \$651,051. This was discovered when a new capital asset depreciation program was implemented by the county.

Government Wide Statements – The calculation for infrastructure depreciation was incorrectly done in prior years resulting in a cumulative amount of \$25,536,425. This was discovered when a new capital asset depreciation program was implemented by the county.

Solid Waste Fund – The prior period adjustment of \$589,669 consisted of reconciling items on the fixed asset list.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF AGRICULTURE						
Northwest Regional Council						
Senior Farmers Market Nutrition Program	10.576	n/a	8,090	0	8,090	1
		SUB-TOTAL:	\$8,090	\$0	\$8,090	
US Dept of Agriculture						
Conservation Reserve Program	10.069	CREP 2003 0054	0	431	431	1,7
Conservation Reserve Program	10.069	CREP 2005 0072	0	4,303	4,303	1,7
Conservation Reserve Program	10.069	n/a	237	0	237	1
Schools and Roads - Grants to States	10.665	n/a	0	544,376	544,376	1
		SUB-TOTAL:	\$237	\$549,110	\$549,347	
Washington State Conservation Commission						
Conservation Reserve Program	10.069	CRP 2005 0072	16,100	0	16,100	1
		SUB-TOTAL:	\$16,100	\$0	\$16,100	
Washington State Department of Health						
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C14962(20)	1,464	0	1,464	1,4(b)
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	n/a	68,499	0	68,499	1
WIC Farmers' Market Nutrition Program (FMNP)	10.572	C14962(20)	144	0	144	1,4(b)
		SUB-TOTAL:	\$70,107	\$0	\$70,107	
DEPARTMENT OF AGRICULTURE TOTAL:				\$549,110	\$643,644	

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GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF COMMERCE						
Washington State Dept of Ecology						
Coastal Zone Management Administration Awards	11.419	G1000022	22,442	0	22,442	1,5
		SUB-TOTAL:	\$22,442	\$0	\$22,442	
		DEPARTMENT OF COMMERCE TOTAL:	\$22,442	\$0	\$22,442	
DEPARTMENT OF JUSTICE						
Bureau of Justice Assistance						
State Criminal Alien Assistance Program	16.606	2009-G3982-WA-AP	0	49,381	49,381	1,2
		SUB-TOTAL:	\$0	\$49,381	\$49,381	
Department of Social & Health Services						
Juvenile Accountability Block Grants	16.523	0663-98417	6,576	0	6,576	1,2
Juvenile Accountability Block Grants	16.523	0663-98417	5,748	0	5,748	1,2
		SUB-TOTAL:	\$12,324	\$0	\$12,324	
Office of Juvenile Justice-Department of Social & Health Services						
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	1-501-00509	20,421	0	20,421	1,4(d)
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	1-600-01508	2,643	0	2,643	1
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	1-600-02308	5,410	0	5,410	1
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	1-100-00209	5,346	0	5,346	1,4(e)
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	1-100-00508	3,338	0	3,338	1,4(e)

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GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF JUSTICE						
Office of Juvenile Justice-Department of Social & Health Services						
				SUB-TOTAL:	\$0	\$37,158
US Department of Justice						
The Community-Defined Solutions to Violence Against Women Grant Program	16.590	2004-WE-AX-0079	0	51,752	51,752	1
The Community-Defined Solutions to Violence Against Women Grant Program	16.590	2004-WE-AZ-0079	0	111,850	111,850	1
Public Safety Partnership and Community Policing Grants	16.710	2008CKWX0831	0	10,035	10,035	1
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-1035	0	4,951	4,951	1,2
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	2009-SB-B9-0530	5,104	0	5,104	1,2,8
				SUB-TOTAL:	\$178,588	\$183,692
Washington Association of Sheriffs and Police Chiefs						
Public Safety Partnership and Community Policing Grants	16.710	n/a	857	0	857	1
Public Safety Partnership and Community Policing Grants	16.710	n/a	3,088	0	3,088	1
				SUB-TOTAL:	\$0	\$3,945
Washington State Department of Commerce						
Edward Byrne Memorial Justice Assistance Grant Program	16.738	M09-34021-014	54,835	0	54,835	1
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	M07-66201014	155,042	0	155,042	1,8
				SUB-TOTAL:	\$0	\$209,877
Washington State Department of Community, Trade & Economic Development						
Edward Byrne Memorial Justice Assistance Grant Program	16.738	M07-66201014	43,523	0	43,523	1,2

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GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>DEPARTMENT OF JUSTICE</u>						
<u>Washington State Department of Community, Trade & Economic Development</u>						
			SUB-TOTAL:	\$0	\$43,523	
<u>Washington State Department of Community, Trade and Economic Development</u>						
Violence Against Women Formula Grants	16.588	2009-WF-AX-0004	4,386	0	4,386	1,2
Violence Against Women Formula Grants	16.588	F08-31103-073	11,234	0	11,234	1,2
The Community-Defined Solutions to Violence Against Women Grant Program	16.590	2005-WE-AX-0132	2,130	0	2,130	1
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	C20090493/A20090219	17,382	0	17,382	1,8
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	F09-34721-050	15,940	0	15,940	1,8
			SUB-TOTAL:	\$0	\$51,072	
<u>Washington State Patrol</u>						
Domestic Cannabis Eradication / Suppression	16.2009 112	C20090397	22,674	0	22,674	1
			SUB-TOTAL:	\$0	\$22,674	
DEPARTMENT OF JUSTICE TOTAL:				\$227,969	\$613,646	
<u>DEPARTMENT OF TRANSPORTATION</u>						
<u>Washington Association of Sheriffs and Police Chiefs</u>						
State and Community Highway Safety	20.600	n/a	3,000	0	3,000	1,2
			SUB-TOTAL:	\$0	\$3,000	
<u>Washington State Dept of Transportation</u>						

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GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF TRANSPORTATION						
<u>Washington State Dept of Transportation</u>						
Highway Planning and Construction	20.205	LA6194	598,948	0	598,948	1
Highway Planning and Construction	20.205	LA6452	206,675	0	206,675	1
Highway Planning and Construction	20.205	LA6651	35,428	0	35,428	1
Highway Planning and Construction	20.205	LA6688	228,165	0	228,165	1,2
Highway Planning and Construction	20.205	LA6689	197,239	0	197,239	1,2
Highway Planning and Construction	20.205	LA6690	102,260	0	102,260	1,2
Highway Planning and Construction	20.205	LA6843	29,015	0	29,015	1
Highway Planning and Construction	20.205	LA6955	13,760	0	13,760	1
Highway Planning and Construction	20.205	LS6016	125,595	0	125,595	1,2
			SUB-TOTAL:	\$0	\$1,537,085	
<u>Washington Traffic Safety Commission</u>						
State and Community Highway Safety	20.600	n/a	1,495	0	1,495	1,2
State and Community Highway Safety	20.600	n/a	8,145	0	8,145	1,2
State and Community Highway Safety	20.600	n/a	17,121	0	17,121	1,2
State and Community Highway Safety	20.600	n/a	9,125	0	9,125	1,2
State and Community Highway Safety	20.600	n/a	6,996	0	6,996	1
State and Community Highway Safety	20.600	n/a	593	0	593	1,2

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>DEPARTMENT OF TRANSPORTATION</u>						
<u>Washington Traffic Safety Commission</u>						
			\$43,475	\$0	\$43,475	
			SUB-TOTAL:	\$0	\$43,475	
			DEPARTMENT OF TRANSPORTATION TOTAL:	\$0	\$1,583,560	
<u>ENVIRONMENTAL PROTECTION AGENCY</u>						
<u>Environmental Protection Agency</u>						
Nonpoint Source Implementation Grants	66.460	C1000115	21,607	0	21,607	1,2
			SUB-TOTAL:	\$0	\$21,607	
<u>US Dept of Ecology</u>						
Targeted Watersheds Grants	66.439	WS - 96082901-0	0	364,538	364,538	1,2, 4(d)
			SUB-TOTAL:	\$364,538	\$364,538	
<u>Washington State Department of Health</u>						
Capitalization Grants for Drinking Water State Revolving Funds	66.468	C14962 (20)	5,750	0	5,750	1,4(b)
			SUB-TOTAL:	\$0	\$5,750	
			ENVIRONMENTAL PROTECTION AGENCY TOTAL:	\$364,538	\$391,895	
<u>US DEPARTMENT OF ENERGY</u>						
<u>US Department of Energy</u>						
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	C20090639	23,648	0	23,648	1,8
			SUB-TOTAL:	\$0	\$23,648	

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For The Year Ended December 31, 2009

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>US DEPARTMENT OF ENERGY</u>						
				\$0	\$23,648	
US DEPARTMENT OF ENERGY TOTAL:				\$0	\$23,648	
<u>ELECTIONS ASSISTANCE COMMISSION</u>						
<u>Washington State Office of Secretary of State</u>						
Help America Vote Act Requirements Payments	90.401	OSOS No. G-2855	56,483	0	56,483	1,2
				\$0	\$56,483	
SUB-TOTAL:				\$0	\$56,483	
ELECTIONS ASSISTANCE COMMISSION TOTAL:				\$0	\$56,483	
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<u>Department of Social & Health Services</u>						
Child Support Enforcement	93.563	2110-80608	98,832	0	98,832	1,2,4(c)
Child Support Enforcement	93.563	2110-80608	40,154	0	40,154	1,2,4(c)
Child Support Enforcement	93.563	75-1501-0-1-609	470,167	0	470,167	1,2,4(c)
Medical Assistance Program	93.778	0863-44397	8,100	0	8,100	1,4(b)
Medical Assistance Program	93.778	0963-53356	203,765	0	203,765	1,2,4(d)
Medical Assistance Program	93.778	0963-68574	6,735	0	6,735	1,4(b)
National Bioterrorism Hospital Preparedness Program	93.889	C14962 (20)	8,571	0	8,571	1,4(b)
Block Grants for Community Mental Health Services	93.958	FBG-09-10	6,354	0	6,354	1
Block Grants for Prevention and Treatment of Substance Abuse	93.959	0963-68059	58,846	0	58,846	1

Skagit County, Washington
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2009

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Department of Social & Health Services						
Block Grants for Prevention and Treatment of Substance Abuse	93.959	9514-1-DASA	471,293	0	471,293	1
Block Grants for Prevention and Treatment of Substance Abuse	93.959	9514-3	23,543	0	23,543	1
		SUB-TOTAL:	\$1,396,360	\$0	\$1,396,360	
Educational Service District 105						
Drug-Free Communities Support Program Grants	93.276	9007000135	15,710	0	15,710	1
Drug-Free Communities Support Program Grants	93.276	9008000097	13,822	0	13,822	1
		SUB-TOTAL:	\$29,532	\$0	\$29,532	
Northwest Regional Council						
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	121009-NUTR	167,490	0	167,490	1,2,6
Nutrition Services Incentive Program	93.053	121009-NUTR	69,049	0	69,049	1
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	121009-NUTR	18,725	0	18,725	1,2,6,8
ARRA - Aging Congregate Nutrition Services for States	93.707	121009-NUTR(2)	15,404	0	15,404	1,2,6,8
		SUB-TOTAL:	\$270,668	\$0	\$270,668	
University of Washington						
Maternal and Child Health Services Block Grant to the States	93.994	n/a	4,000	0	4,000	1,9
		SUB-TOTAL:	\$4,000	\$0	\$4,000	
Washington State Department of Health						
Public Health Emergency Preparedness	93.069	C14962 (20)	154,732	0	154,732	1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Washington State Department of Health						
Public Health Emergency Preparedness	93.069	C14962 (20)	24,667	0	24,667	1
Public Health Emergency Preparedness	93.069	C14962 (20)	25,449	0	25,449	1
Public Health Training Centers Grant Program	93.249	C14962 (20)	1,540	0	1,540	1,4(b)
Immunization Grants	93.268	C14962 (20)	1,612	0	1,612	1
Immunization Grants	93.268	C14962 (20)	4,609	0	4,609	1,4(b)
Immunization Grants	93.268	C14962 (20)	31,837	0	31,837	1,4(b)
Immunization Grants	93.268	C14962(12)	119,163	0	119,163	1,3
Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283	C14962 (20)	47,944	0	47,944	1,4(b)
Promoting Safe and Stable Families	93.556	0763-12851	3,496	0	3,496	1,4(b)
Promoting Safe and Stable Families	93.556	0763-12852	1,438	0	1,438	1
Child Care and Development Block Grant	93.575	C14962 (20)	23,754	0	23,754	1,4(b)
Preventive Health and Health Services Block Grant	93.991	C14962 (20)	50,000	0	50,000	1
Maternal and Child Health Services Block Grant to the States	93.994	C14962 (20)	121,558	0	121,558	1,4(b)
SUB-TOTAL:			\$611,799	\$0	\$611,799	

DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL: \$2,312,359

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2009

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
<u>CORPORATION FOR NATIONAL SERVICE</u>						
<u>Corporation For National And Community Services</u>						
Retired and Senior Volunteer Program	94.002	n/a	63,690	0	63,690	1,2
		SUB-TOTAL:	\$63,690	\$0	\$63,690	
CORPORATION FOR NATIONAL SERVICE TOTAL: \$63,690						
<u>DEPARTMENT OF HOMELAND SECURITY</u>						
<u>Snohomish County</u>						
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	C080636FED	93,982	0	93,982	1
		SUB-TOTAL:	\$93,982	\$0	\$93,982	
<u>Washington State Military Department</u>						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	4,113	0	4,113	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	3,704	0	3,704	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	12,245	0	12,245	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	20,737	0	20,737	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	113,550	0	113,550	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	26,992	0	26,992	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	29,226	0	29,226	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	1,870	0	1,870	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	12,349	0	12,349	1,2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2009

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF HOMELAND SECURITY						
Washington State Military Department						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	39,252	0	39,252	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	E07-786	36,122	0	36,122	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-10-WA-1825	81,600	0	81,600	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	24,698	0	24,698	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	1,901	0	1,901	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	20,029	0	20,029	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	11,038	0	11,038	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	2,464	0	2,464	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	715	0	715	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	09-095	3,302	0	3,302	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	E08-856	93,352	0	93,352	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	n/a	41,777	0	41,777	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	n/a	146,964	0	146,964	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-10-WA-1825	10,449	0	10,449	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-10-WA-1825	3,822	0	3,822	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-10-WA-1825	3,817	0	3,817	1,2
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-10-WA-1825	5,179	0	5,179	1,2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2009

GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	PASS THROUGH AWARD	DIRECT AWARD	TOTAL AWARD	NOTE REF
DEPARTMENT OF HOMELAND SECURITY						
Washington State Military Department						
Emergency Management Performance Grants	97.042	E09-285	51,595	0	51,595	1,2
Homeland Security Grant Program	97.067	E08-098	78,428	0	78,428	1
Homeland Security Grant Program	97.067	E08-190	3,136	0	3,136	1
Homeland Security Grant Program	97.067	E09-181	31,593	0	31,593	1
Homeland Security Grant Program	97.067	K-455 CCP	50	0	50	1
			SUB-TOTAL:	\$0	\$916,069	
Washington State Parks & Recreation Commission						
Boating Safety and Assistance	97.012	C20090392/2009-62	2,502	0	2,502	1
			SUB-TOTAL:	\$0	\$2,502	
			DEPARTMENT OF HOMELAND SECURITY TOTAL:	\$0	\$1,012,553	
			TOTAL FEDERAL AWARDS EXPENDED:	\$1,141,617	\$6,723,920	

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, 2009

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 2009 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) 20.96% (e) 10%

NOTE 5 – AMOUNTS AWARDED TO SUBRECIPIENTS

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

NOTE 6- PROGRAM INCOME

The amount reported for 93.045, 93.705 and 93.707 is net of \$207,644 received as program income.

NOTE 7 – CREP RENTAL PAYMENTS

These funds are land rental payments from the CREP program. There are no expenses directly related to these payments.

NOTE 8 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for this program were funded by ARRA

NOTE 9 – UNIVERSITY OF WASHINGTON FIXED PRICE AGREEMENT

These funds represent revenue received for a fixed price agreement. This grant is complete and expenses totaled \$1,788.92.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

The State Auditor's Office 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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