POPULAR ANNUAL FINANCIAL REPORT SKAGIT COUNTY, WASHINGTON

For Fiscal Year Ended December 31, 2011





Skagit County is a very special place to live, with beautiful and diverse communities and extraordinary natural resources. Skagit County Government proudly serves the people, businesses, communities and organizations in this special place, guided by these principles:

- •We will partner with our customers, based on mutual respect and trust, to protect and plan for the health safety and welfare of current and future citizens.
- •We will assist our customers, based on fairness and justice, to understand and comply with the intent of Federal and State regulations as well as our own.
- •We will support and honor our employees in their efforts to be progressive and innovative in improving the efficiency and quality of services to our customers.

OUR MISSION is to be recognized as a premier county in Washington State for providing professional leadership, operational excellence, timely assistance, and maximum efficiency in service delivery to our customers.

Message from the County Auditor





Dear Residents of Skagit County,

I am proud to present you with the County's Popular Annual financial report (PAFR) for the fiscal year ended December 31, 2011.

Inside this publication, we provide you with details of how the County's revenue is generated, where the dollars are spent, and how the local economy impacts Skagit County's overall financial status. Above all, our goal is to provide you an opportunity to better understand the many financial aspects that affect your local government.

Information in this report is derived from the 2011 Skagit County Comprehensive Annual Financial Report (CAFR), a 240-page book detailing Skagit County's finances. Our CAFR received an unqualified opinion from the State Auditor's Office. An unqualified opinion is the highest opinion that can be rendered and means that the State Auditor's Office examined the County's books and records and determined that the financial statements present fairly, in all material respects, the financial position, operating results, and cash flows of the County in conformity with Generally Accepted Accounting Principals (GAAP). Because the PAFR is created to provide you with a summary of the financial activity of Skagit County in an easily understandable format, it is not presented in conformity with GAAP. Readers desiring more detailed information in conformity with GAAP are encouraged to read our CAFR.

We hope you find this report both informative and helpful.

Thank you,

Jeanne Youngquist
Auditor



About Skagit County



Skagit County is named after the Skagit Indian Tribe. It was formed out of Whatcom County (just north of us) on November 28, 1883. The County nestles between the majestic Cascade Mountains to the east, fans out into a fertile river delta and is bordered on the west by the scenic and famed San Juan Islands. It has a total area of 1,920 square miles, of which 185 square miles is water. 156,085 acres are devoted to parkland, and 364,582 acres are designated National Forest Land. The County is also home to approximately 100,000 acres of productive and valuable farmland. Agriculture remains the number one industry producing upwards of 90 crops. In addition to fruits and vegetables, Skagit produces more tulip, daffodil, and iris bulbs than any other county in the United States. Organic acreage is on the increase, with more than 5,820 acres of certified organic land is in production with a value of \$13,339,494 – the highest in Western Washington.



Skagit County court house



View from the Historical Museum in La Conner



Skagit River from down town Mt. Vernon



View from Swinomish Casino & Lodge

Skagit County Government



County Commissioners



Ron Wesen, District 1



Ken Dahlstedt, District 2



Sharon Dillon, District 3

Elected Officials



Assessor Don Monks



Auditor Jeanne Youngquist



Sheriff Will Reichardt



Clerk Nancy Scott



Prosecuting Attorney Rich Weyrich



Treasurer Katie Jungquist



Coroner Daniel Dempsey

Judicial Elected Officials



John Meyer Superior Court



Michael Rickert Superior Court



Susan Cook Superior Court



Dave Needy Superior Court



David Svaren District Court

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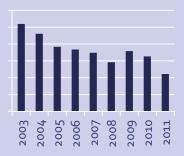
Warren Gilbert District Court

^{*} More information regarding elected officials and their duties are on page 16

Government-Wide Statement of Net Assets

Total Net Assets Over Time

460,000,000 440,000,000 420,000,000 400,000,000 380,000,000 360,000,000



The statement of net assets presents information on the County's assets (what we own) and liabilities (what we owe), with the difference between the two reported as net assets. Measuring net assets is one way to evaluate the County's financial condition. Over time, increases and decreases to net assets may serve as an indicator as to the County's financial health. Assets exceeded liabilities by \$384 million in 2011. Of the excess, \$332 million reflects investments in capital assets (land, buildings, improvement, infrastructure, equipment less any debt incurred to acquire the assets). Restricted net assets reflect resources that are subject to restrictions and cannot be used for general government obligations to citizens and creditors. Unrestricted net assets may be used to meet general government obligations.

Government-Wide Statement of Activities

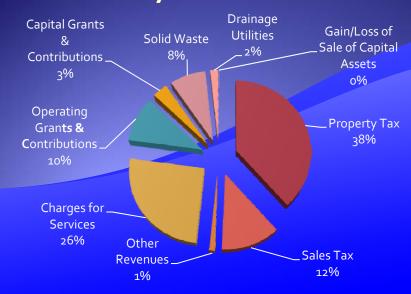
	Primary Government					
	G	overnmental	В	usiness-Type		
		Activities		Activities		Total
Revenues						
Taxes	\$	58,737,159	\$	- 5	\$	58,737,159
Charges for Servicees		28,226,465		9,738,951	\$	37,965,416
Operating Grants & Contributions		8,961,787		397,974	\$	9,359,761
Capital Grants & Contributions		5,685,601		71,451	\$	5,757,052
Interest & Investment Earnings		781,032		(545,115)	\$	235,917
Gain/Loss of Sale of Capital Assets		(118,394)		700	\$	(117,694)
Transfers		9,142		(9,142)	\$	-
Total Revenues	•	102,282,792	•	9,654,819		111,937,611
Expenditures		0				-
General Government		29,694,591				29,694,591
Judicial		6,528,192				6,528,192
Public Safety		20,622,410		•		20,622,410
Physical Environment		2,672,643				2,672,643
Transportation		29,952,995		•		29,952,995
Economic Environment		3,162,607				3,162,607
Health & Hunman Services		10,387,711				10,387,711
Culture & Recreation		1,642,170		0		1,642,170
Interest on Long Term Debt		516,260				516,260
Enterprise Fund Expenses				8,664,969		8,664,969
Total Expenses		105,179,579	,	8,664,969		113,844,548
Net Assets January 1		403,732,047		1,576,799		405,308,846
Prior Period Adjustment		(19,564,545)		513,267		(19,051,278)
Net Assets December 31		381,270,715		3,079,916		384,350,631

statement activities presents information showing how the County's net assets changed during 2011. It provides a detailed account of revenues (sources of income) and expenses (uses of money) for County operations. In 2011 our expenses exceeded our revenues by \$1.9 million, up from a \$4.7 decrease in net assets from 2010. For information on revenue and expense trends, see the following pages. Business-type activities rely to a significant extent on charges for services. They include Solid Waste and Drainage Utilities.





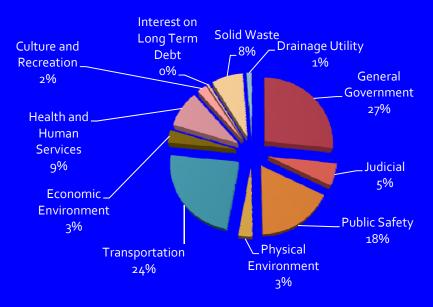
Revenues By Source



MONIES IN

As a government entity, the County uses fund accounting, or self-balancing sets of accounts segregated for specific activities. Governmental funds are used to account for tax-supported activities and the County receives the funding it needs in order to provide services to the community from a variety of sources. This graph depicts the significance each source of revenue has to the County's overall fiscal health. Property tax makes up of the majority of the revenues, with Charges for Services coming in second. Charges for services are resources from various County departments and agencies for fees paid to them by the public, such as court costs and fees for recording deeds and transferring property.

Expense by Function



MONIES OUT

General Government consists of the largest portion of expenses for the County, followed closely by transportation. General Government expenses consist of legislative and executive expenses. Transportation consists of expenses related to public works and are incurred for infrastructure (roads and bridges within the County). Public Safety consists of the Sherriff's department, probation and costs of the jail. Judicial costs are those costs related to the court system: Superior and District Court, as well as the County Clerk. Health and Human Services include costs associated with the Health Department as well as veteran's services, mental health, substance abuse and community services. Economic environment expenses include planning and development services, housing and promotion of tourism. Physical environment includes expenses for conservation and the preservation of the environment.

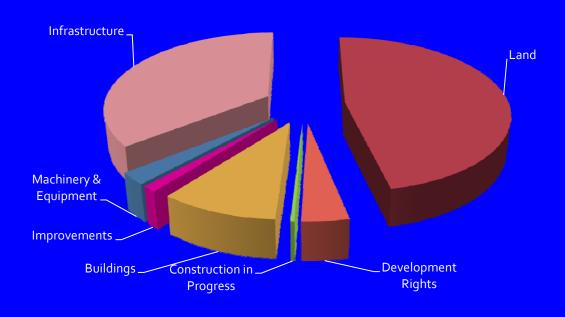
View from Swinomish Casino & Lodge

Capital Assets

The County's investment in capital assets for it's governmental and business-type activities as of December 31, 2011 was \$349 million (net of depreciation). This investment in capital assets includes land, construction in progress, building and building improvements, parks and park improvements, equipment, and infrastructure (bridges and roads). The major capital event during the year was the construction of the new Transfer Station for solid waste.

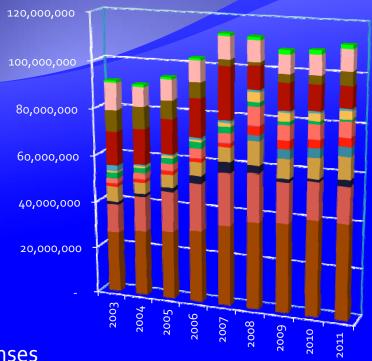
	General A	Business Type	Activities	Total		
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	157,191,239	154,900,928	793,059	793,059	157,984,298	155,693,987
Development Rights	12,949,189	12,212,019			12,949,189	12,212,019
Construction in Progress	1,027,416	651,253	7,199,955	888,609	8,227,371	1,539,862
Buildings	32,535,550	34,153,890	376,585	406,623	32,912,135	34,560,513
Improvements	4,061,372	3,158,534	4,401,903	3,950,893	8,463,275	7,109,427
Machinery & Equipment	8,369,519	8,860,661	95,913	79,416	8,465,432	8,940,077
Infrastructure	120,189,927	154,986,551			120,189,927	154,986,551
Total Capital Assets	336,324,212	368,923,836	12,867,415	6,118,600	349,191,627	375,042,436

2011 Capital Assets by Type



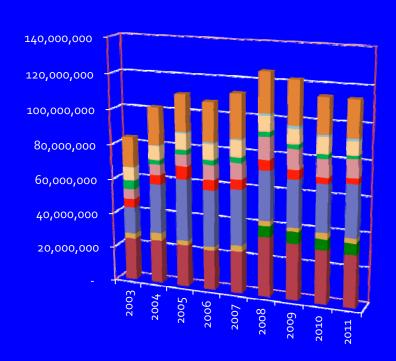
Revenue and Expense Trends

Revenues



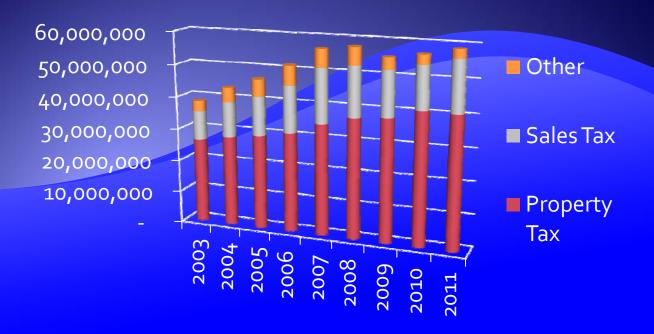
- Drainage Utilities
- Solid Waste
- Capital Grants and Contributions
- Operating Grants and Contributions
- Culture and Recreation
- Health and Human Services
- Economic Environment
- Transportation
- Physical Environment
- Public Safety
- Judicial
- ■General Government
- Interest and Investments
- Sales and Other Tax
- Property Tax

Expenses



- Public Safety
- Drainage Utility
- Solid Waste
- Interest on Long-Term Debt
- Culture and Recreation
- Health and Human Services
- Economic Environment
- Transportation
- Physical Environment
- Judicial
- General Government

Tax Revenue Trends

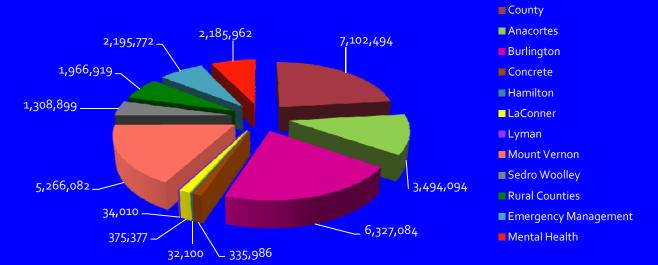


Sales Tax Information

Sales Tax Rate Distribution	
State Portion	6.5%
County/City	1.0%
Mental Health/Substance Abuse	0.1%
Criminal Justice	0.1%
Emergency Communicaion	0.1%
Public Transportation	0.4%
Total Default Sales Tax Rate	8.2%

Of the 1% County/City portion, the County receives 100% in unincorporated areas, and 15% in incorporated areas in the County, with the city receiving 85%.

There are currently two sales tax initiatives up for vote in the 2012 general election:
LaConner Fire District increase and Sedro Woolley Public Safety increase.

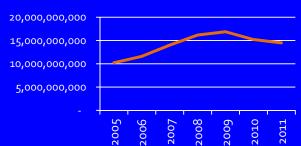


^{**} Distribution dollars obtained from the Department of Revenue Table S1 Distribution of Local Sales/Use Tax

Property Tax Information

Many people are unaware of how sales and income taxes differ from property tax. Sales tax and income tax are rate based taxation systems, whereas property tax is a budget based taxation system. Property taxes are created by the various taxing jurisdictions through their budgeting process and by voters when they pass tax issues. A widely held misconception is that high taxes are the fault of local government. The reality is that the largest single source of property tax increase has been our state legislature and the tax shifts caused by property tax exemptions they have approved. If an exemption is given from sales or income taxes, no tax is collected. In contrast, when an exemption from property tax is provided to a single taxpayer, the same amount of tax is collected. Other taxpayers must pay a higher portion. This is called a tax shift.

Assessed Property Value



2012 Total Taxable Value Assessed by County Assessor										
Value of All Real Property	\$	13,630,153,404								
Value of All Personal Property		479,002,098								
Total		14,109,155,502								
Assessed by Washington State Department of Revenue										
Value of Public Utilities		385,516,242								
Total Value of All Taxable Property	\$	14,494,671,744								



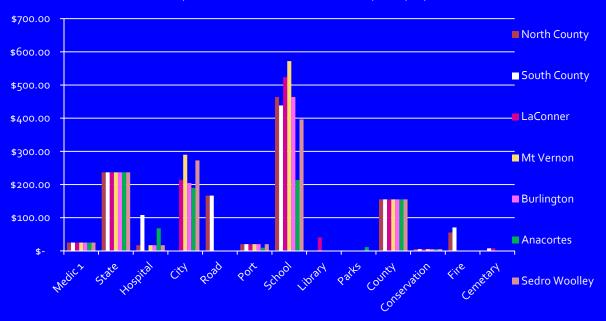


Property Tax Distribution

Individual tax rates depend on location of your property within the County. For instance, if you live inside Mount Vernon city limits, your property tax rate is different than if you lived within the city limits of LaConner. This is not only because of the different rates applicable to each city, but because of the different rates in school districts and fire districts etc. Property located within a certain Dike district will pay tax for that specific district, whereas another property will not have a Dike district tax. The following are some applicable rates for a sample of properties located around the County:

	North	South					
	County	County	La Conner	Mt Vernon	Burlington	Anacortes	Sedro Woolley
	Property	Property	Property	Property	Property	Property	Property
Medic 1	0.2500	0.2500	0.2500	0.2500	0.2500	0.2500	0.2500
State	2.3689	2.3689	2.3689	2.3689	2.3689	2.3689	2.3689
Hospital	0.1711	1.0835		0.1711	0.1711	0.6804	0.1711
City			2.1417	2.8981	2.0453	1.8993	2.7283
Road	1.6656	1.6656					
Port	0.2016	0.2016	0.2016	0.2016	0.2016	0.0970	0.2016
School	4.6382	4.3837	5.2386	5.7204	4.6382	2.1303	3.9628
Library District			0.4033				
Parks						0.1142	
County	1.5539	1.5539	1.5539	1.5539	1.5539	1.5539	1.5539
Conservation	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527	0.0527
Fire District	0.5551	0.7066					
Cemetery		0.0769	0.0769				
Total Tax Rate	11.4571	12.3434	12.2876	13.2167	11.2817	9.1467	11.2893
Total Assessed Value	14,494,6	71,744	139,264,787	2,485,713,804	1,182,072,646	2,545,635,473	724,366,210
Total City Tax Assessed			\$ 298,082	\$ 7,163,185	\$ 2,417,693	\$ 4,827,175	\$ 1,971,865

Taxes assessed per \$100,000 assessed value a sample of properties:

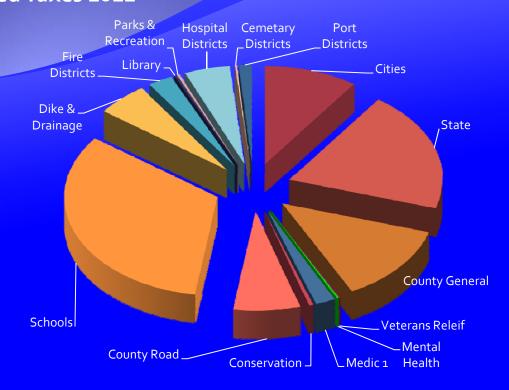


Tax rates in aggregate				
General Fund	1.55	Cities and Towns	18.09	Cemetary Districts
Special Revenue Fund	1.97	State of WA	2.37	Ports
Schools	33.9	Hospitals	1.93	Dike & Drainage
Fire Districts	13.83	Parks & Recreation	0.11	Library



Property Tax Continued

Assessed Taxes 2011



Property Tax Assessed in 2011								
			% of Total					
Cities	\$	16,958,076	9.84%					
State		34,251,857	19.87%					
County General		22,047,553	12.79%					
Veterans Releif		163,100	0.09%					
Mental Health		312,600	0.18%					
Medic 1		3,619,099	2.10%					
Conservation		763,312	0.44%					
County Road		12,163,090	7.06%					
Schools		56,499,359	32.78%					
Dike & Drainage		9,379,201	5.44%					
Fire Districts		4,455,926	2.59%					
Library		416,845	0.24%					
Parks & Recreation		480,405	0.28%					
Hospital Districts		8,188,976	4.75%					
Cemetary Districts		291,665	0.17%					
Port Districts		2,351,177	1.36%					

The majority of assessed property tax in Skagit County is distributed to the school districts, with the second largest percentage to the state. The County's portion of the total assessed taxes is 12.79%. Property tax consists of 39.67% of total County revenues. The remaining 60.33% of the County's revenues are derived from charges for services, grant revenues, sales and use tax, and other taxes. Please refer to the revenue graph on page 9.



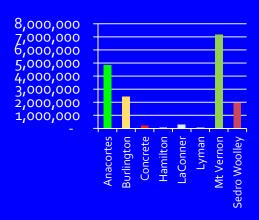
Property Tax Continued – Cities and Towns



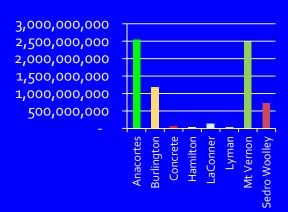




Assessed Taxes



Assessed Values

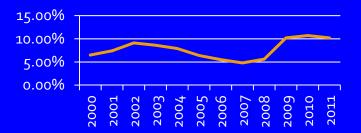


			Assessed				
Cities/Towns	As	ssessed Values		Taxes			
Anacortes	\$	2,545,635,473	\$	4,827,175			
Burlington		1,182,072,646		2,417,693			
Concrete		57,509,516		194,094			
Hamilton		28,339,978		51,153			
LaConner		139,264,787		298,082			
Lyman		29,083,043		34,829			
Mount Vernon		2,485,713,804		7,163,185			
Sedro Woolley		724,366,210		1,971,865			
Totals	\$	7,191,985,457	\$	16.958.076			

Economic Overview

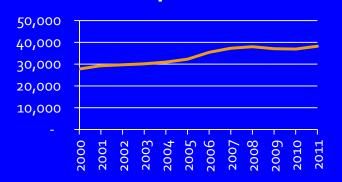
Skagit County's economic base includes agriculture, food processing, lumber and wood products, oil refining, tourism, and marine industries. Included within the marine related industries are fishing, fish processing, ship and boat building and repair. Exports within the agricultural area have continued to be strong. As is the case throughout the nation, Skagit County's local economy has been directly impacted by the current global recession. The County has demonstrated its commitment to maintaining a strong general fund balance. In 2009, the County implemented 5 non-paid closure days. In 2010, they were increased to 12 days, which was continued in 2011. As is demonstrated by the graph below, full time equivalent County employees have decreased since the recession began in 2008. The County will continue to face challenges in meeting growing demands for services and employee related costs in an environment of limited revenues. The County is focused on improving efficiencies and effectiveness via innovative solutions that lead to providing the essential infrastructure and services provided for its citizens. More information regarding those services is on the next page.

Unemployment Rate

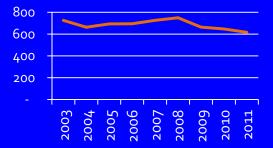


As unemployment rose and revenues decreased due to the economic environment, the County responded with reduced staff and furlough days.

Per Capita Income



Full Time
Equivalent
County...

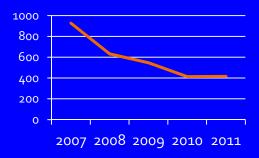


Service Operating Indicators

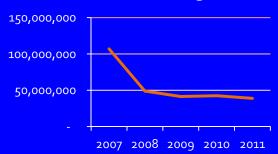
Public Safety	2007	2008	2009	2010	2011
Commissioned Employees	59	61	62	58	46
Civilian and limited Commissi	56	57	58	53	53
Average daily jail population	240	241	275	243	196
Police patrol units, vehicle	60	61	62	54	49
Police patrol units, boats	3	3	4	4	5
Fire Protection					
Number of Districts	17	17	18	18	18
Paid firefighters	65	67	66	65	65
Volunteer firefighters	515	509	550	585	568
Building Permits					
Permits Issued	927	632	547	414	416
Value of buildings	\$ 106,903,097	\$ 48,838,303	\$ 41,441,249	\$ 42,538,000	\$ 38,893,281
General Elections					
Registered voters	63,604	69,335	68,119	68,936	68,996
Votes cast	33,455	56,632	36,160	48,960	38,256
Percentage voting	53%	82%	53%	71%	59%
Miles of Road					
Paved Roads	757	756	758	761	7,616
Unpaved Roads	38	41	41	41	41

The current global economic recession's local impact is clearly evident in the number of new building permits issued and the value of those issued, as demonstrated by the graphs below. We show a slight increase in 2011 on the number of permits issued; however, the assessed values of buildings in the County continue to decline.

Permits Issued



Value of Buildings



Elected Officials – offices and duties

**All elected officials are elected to four year terms. Current official's terms expire in December 2014, with the exception of Superior Court judges – they expire in 2012.

Assessor

All real and personal property in this state is subject to property tax based on 100 percent of its fair market value unless a specific exemption is provided by law. The Assessor's office is charged with determining the values of all real property and taxable personal property for the purpose of equitable distribution of tax liabilities to the taxpayers in the various districts within the County.

Auditor

The auditor's office is a diverse department with several responsibilities and consists of four departments: Accounting, Elections, Licensing, and Recording. Accounting is responsible for the County's annual financial statements as well as payroll and accounts payable. Accounting also provides accounting services to various junior districts. Elections runs all election duties within the county. Licensing consists of vehicle/vessel licensing as well as overseeing the various licensing subagents within the County. Recording of official documents also issues marriage licenses.

Clerk

The County Clerk is an executive branch position in the County and is the administrative and financial officer of Superior Court. Duties include preserving all documents presented in a Superior Court cause of action. The Clerk also collects statutory fees, fines, victim restitution and trust funds are disbursed upon court order.

Coroner

The Coroner has the responsibility of determining the Cause and Manor of Death of all persons who pass within the jurisdictional boundaries of Skagit County. The Coroner is also charged with determining if a case is a jurisdictional death that would require a more thorough and in-depth investigation.

Prosecuting Attorney

The office consists of three divisions: Criminal, Civil, and Family Support Division. The Prosecuting Attorney determines whether criminal charges should be filed, defends the County in suits filed against it, and handles matters referred by the Division of Child Support.

Sheriff

The Sheriff's department is committed to the safety of the citizens and visitors to Skagit County. The department consists of patrol, investigations, corrections, administration and records.

Treasurer

The Treasurer services all taxing and assessment districts within the County, which includes hospitals, schools, ports, fire, library, sewer, cemetery, as well as others. The department bills and collects all real and personal property taxes for the County and the junior districts.

Superior Court

Superior court handles the following cases: felony criminal, civil, dissolution and custody, juvenile court proceedings, paternity cases/adoption matters, probates, and mental commitment proceedings.

District Court

District Court handles the following cases: misdemeanors, gross misdemeanors, civil claims to \$75,000, small claims to \$5,000, protection orders, name change petitions, dangerous dog hearings, vehicle impound hearings.

Skagit County Departments

Board of Equalization

• Established by state constitution and laws, governed by the department of Revenue, this entity was established specifically for appealing Assessor's valuation of property values. (360) 366-9334

Boundary Review Board

Established by state statutes to provide local independent review of certain actions proposed by cities, towns and special purpose districts. Most common actions to come before the Board are annexations. (360) 336-9384

Budget and Finance

 Administers and maintains the financial system for the County. Researches, develops and reviews funding sources. Facilitates the Board of County Commissioners in developing the Annual Budget. (360) 336-9300

Community Services

 Administers various community services activities including Mental Health Program, Meals on Wheels, Senior Centers, Senior Nutrition Program, Developmental Disabilities, and Substance Abuse Treatment and Prevention. (360) 419-3420

Emergency Management

Provides organization and coordination of resources to minimize loss of life and to protect property and the
environment in the event of natural, human-caused, or technological emergencies or disasters affecting
Skagit County. (360) 428-3250

Facilities Management

 Provides a safe physical working environment for the administration of County government through preventative, daily and emergency maintenance. Also provides real property management through acquisition or sale or lease of County properties. (360) 419-3481

Fairgrounds

Provides support for the Skagit County Fair.

Farmland Legacy

Purchases agricultural easements on Skagit farmland, works to support policies, programs, and plans that
enhance the protection of farmland. Funding comes from the conservation tax and is often leveraged with
federal and state grants and private donations. (360) 428-3250

Fire Marshal

Provides the following services: Investigation of fire/arson scenes. Reviews building plans and inspects
commercial construction as per fire codes. Regulates outdoor burning, and implements and maintains other
programs. The Fire Marshal is a division of the Department of Emergency Management. (360) 428-3250

GIS / Mapping Services

Centralized service center that provides mapping and GIS service to meet the business needs of our partners, customers, and clients within Skagit County and the communities we serve. This includes providing support and maintenance in the areas of data conversion, cartography, remote sensing, computer graphics and visualization, Global Positioning Systems (GPS), database design, software development, address system maintenance, and 911-database maintenance. (360) 336-9368

Public Health

Public Health is the science of protecting and improving the health of communities through education, promotion of healthy lifestyles, and research for disease and injury prevention. Public health professionals analyze the effect on health of genetics, personal choice and the environment in order to develop programs that protect the health of your family and community. Overall, public health is concerned with protecting the health of entire populations. These populations can be as small as a local neighborhood, or as big as an entire county. (360) 336-9380

Hearing Examiner

The Office of Land Use Hearings provides Skagit County with Hearing Examiners to conduct public hearings and make written decisions regarding land use applications and appeals as provided in the Skagit County Code. Hearings are scheduled through the Department of Planning and Development Services. (360) 336-9334

Historical Museum

The family friendly Skagit County Historical Museum is located at the top of the hill in La Conner. (360) 466-3365

Human Resources

Human Resources department administers workforce management. (360) 336-9433

Information Services

 Centralized service center providing technical direction and support, data communications management, network design and management, software development, system analysis and design, among other services. (360) 336-9465

Jail

The mission of the Skagit County Sheriff's Office Corrections Division is to provide Skagit County with a jail which follows current high professional standards, allowing inmates quality human existence while awaiting trail or serving a sentence deemed appropriate by our court system. (360) 336-9448

Noxious Weeds

Noxious Weeds are non-native plants introduced into Washington State. They spread quickly and can be difficult to control. They invade our croplands, rangeland, forests, prairies, rivers, lakes, wetlands, and estuaries causing both ecological and economical damage that affects us all. The mission is to serve as responsible stewards of Skagit County by protecting and preserving the land and resources from the damaging effects of noxious weeds. (360) 336-9430

Parks and Recreation

 Parks and Recreation department was established to improve, operate and maintain parks, playgrounds and other recreation facilities within the County. We have over 2,300 acres of parklands, including 26 parks and 40 miles of trails. (360) 336-9414

Planning and Development

 The Planning and Development department is charged with the physical development and service of land within Skagit county, including sustainable land development and conservation, building permit review, and growth management. (360) 336-9410

Public Works

 The Public Works department operates the Guemes Island Ferry and infrastructure needs in Skagit County. Public Works has several divisions including Engineering, natural resources, operations, and a solid waste division. (360) 336-9400

Records Management

Records Management provides a number of services to other divisions of Skagit County, including records management administration, inactive records storage, Public Records Act compliance, centralized postage and mailing services as well as centralized office supply purchasing. (360) 336-9404

Risk Management

 Centralized service center providing direction and support for risk management within the county. The Risk Management program establishes a coordinated program for the processing, adjudication and determination of claim and litigation against the County, its elected officials, officers, and employees. (360) 336-9424

Skagit21 Television

Provides video of Board of County Commissioners meetings, as well as other public meetings, (360) 336-9300

Upriver Services

• Provides government services in Concrete, Washington. (360) 853-7009

