



# San Juan County

## QUARTERLY FINANCIAL REVIEW

2ND QUARTER 2014

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## San Juan County Abuzz with Activity



Do you feel that buzz around town? It's more than just the usual buzz of tourists in the summer. Economic activity is picking up in San Juan County, and that's a good thing.

The County tends to focus on revenue to County government. But there's a bigger picture to be considered. Economic recovery in the community must precede economic recovery of County government. And many of the early signs of economic recovery do not directly boost County revenue.

To use an extreme example, barter is a form of economic activity. It benefits both parties to the trade, but doesn't do a thing for government. Yet an increase in barter activity, just as with any economic activity, shows increased economic growth.

Rent is a more mainstream form of income that does nothing for the County, at least not directly. At the height of the recent recession, both commercial and residential vacancy rates climbed. As vacancies fill, there is more revenue to landlords, but that revenue does not translate directly to County revenue, since most rent is not subject to sales tax. (See sidebar on vacation rentals.) Professional services and financial services are other areas where increased activity serves the populace well, but not directly the County government.

Indirectly, of course, it is true that "a rising tide floats all boats." When individuals earn more money, they spend more, leading to sales tax revenue. When they become settled and have the income, they may build (permit revenue, sales tax revenue) or buy (real estate excise tax revenue). They also buy cars, which must be titled and registered; travel, needing passports and immunizations; and park illegally, resulting in fines. As a community shifts from the hunker-down mentality of recession to the beehive activity level of a healthy, vibrant community, local government recovers, as well.

Indications are we've reached the beehive. County revenue out-performed both history and expectation in the first half of 2014. Two areas in particular suggest real economic

### VACATION RENTALS AND SALES TAX



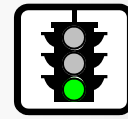
Vacation Rental Activity is reflected in the lodging tax which goes to the County - 4% out of the 10.1% assessed on lodging accommodations. Lodging tax, which is a subset of sales tax, has also been performing well in 2014 - even better than the record-setting performance of 2013.

All businesses and individuals who rent accommodations to visitors for periods of less than 30 days are subject to this sales tax. Unfortunately, not all rental owners are aware of this requirement. It doesn't matter if the rental is in a home or in a separate building. It doesn't matter if the rental is licensed or not licensed. "Transient" rentals of less than 30 days are subject to sales and lodging tax. Renting through online vacation rental websites does not exempt one from this requirement. Nor can owners of vacation rentals avoid this taxation by having unrelated parties sign a paper saying that they're "sharing" a 30-day rental.

Vacation rental owners who fail to comply with this law are not only cheating the County of revenue; they are also cheating their friends and neighbors by creating an unfair advantage against legitimate rentals who comply with the law. The County is currently considering ways to educate owners about the requirements, and to enforce compliance if necessary.



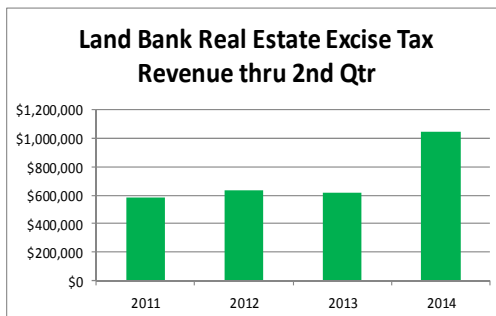
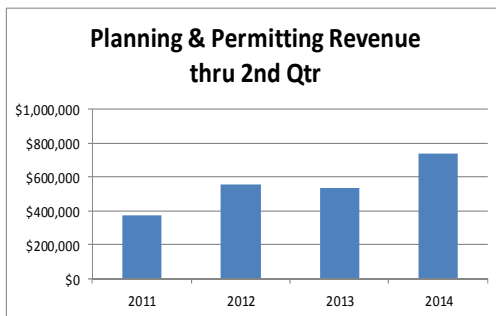
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# 2014 General Fund Revenue

recovery: real estate and retail trade/tourism.

Real estate activity shows in two ways: increased applications for building permits and land use planning activities, and increased real estate sales. Driven by the CAO implementation deadline of March 31, planning and permitting activity



in the first quarter 2014 was off-the-charts good.

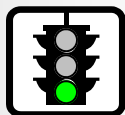
More important, the big drop-off expected April 1 did not materialize. Yes, things slowed to a more normal pace, but remained active enough to suggest that overall activity in Community Development & Planning will beat projection by 40 percent. Of course, fees in that area pay for services, and the department had to increase staffing in order to deliver quality service in reasonable time. But the beehive is buzzing, and that's great news for the community.

Real estate sales also continue to improve. Both number and dollar amount of real estate sales in the 2<sup>nd</sup> quarter far exceeded the same period last year, with transactions up 69% and dollars up 95%, county-wide. Unfortunately, inventory – the number of properties listed for sale – continued to climb, as buyers who have been waiting for years for the right time to list give up and list anyway. Because of inventory, prices remain depressed, making it a great time for first-time

## General Fund Revenue by Type, thru 2nd Quarter

BASUB	Department	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	% incr. over 2013	2014 Budget
0001	Current Expense Fund						
300	Cash	0	0	0	0		176,576
311	General Property Taxes	3,360,719	3,455,437	3,442,505	3,541,751	2.88%	6,165,194
313	Retail Sales and Use Taxes	1,463,294	1,540,692	1,648,030	2,021,973	22.69%	4,635,925
317	Excise Taxes	6,594	7,199	8,360	9,583	14.63%	15,500
310	Taxes	4,830,607	5,003,328	5,098,895	5,573,307	9.30%	10,816,619
320	Licenses and Permits	421,344	605,263	578,293	759,019	31.25%	983,964
330	Intergovernmental Revenue	486,559	580,821	547,383	510,258	-6.78%	971,768
340	Charges for Goods and Svcs	572,271	668,625	711,356	840,313	18.13%	1,622,379
350	Fines and Forfeits	163,994	134,278	133,045	168,768	26.85%	289,250
360	Miscellaneous Revenues	212,176	204,707	217,895	269,614	23.74%	380,686
380	Nonrevenues	0	0	0	0		50,000
390	Other Financing Sources	104,840	135,373	359,092	14,378	-96.00%	186,840
	<b>Total Current Expense</b>	<b>6,791,791</b>	<b>7,332,395</b>	<b>7,645,959</b>	<b>8,135,657</b>	<b>6.40%</b>	<b>15,478,082</b>

# 2014 County Revenue



homebuyers and persons moving to the county to buy.

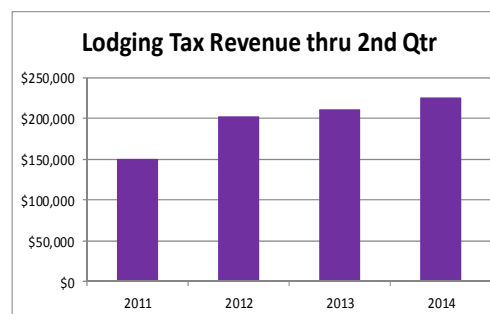
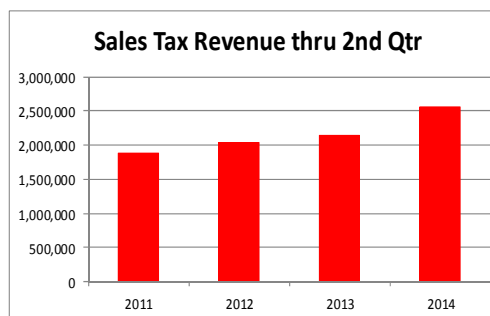
Real estate excise taxes on the sale of property

benefit two County funds: the Land Bank and the Capital Improvement Fund. The Land Bank, of course, invests in conservation property for the citizens of the County. The Capital Improvement Fund is available to pay for purchases and improvement to real property owned by the County, including park facilities, roads, and stormwater facilities, as well as buildings and land improvements.

The other type of County revenue which is markedly up through the second quarter of 2014, as compared to previous years, is sales tax. We largely associate sales tax with visitors and the lodging, meals and trinkets they buy while they're here. But we all pay sales tax year-round, and the increase in sales tax even in the winter months this year suggests that it's not just tourists spending more money. Again, the

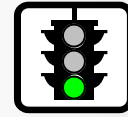
beehive is all around us.

Most other areas of the County are buzzing, as well. Even fines and interest income are up. The hope is that the hive will continue to flourish and County revenue, a mere by-product of true economic recovery, will follow suit.



## County Revenue by Type, thru 2nd Quarter

BASUB	Revenue Type	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	% incr. over 2013	2014 Budget
300	Cash	0	0	0	0		11,429,860
311	General Property Taxes	5,366,221	5,516,370	5,682,486	5,859,081	3.11%	10,009,764
313	Retail Sales and Use Taxes	1,888,291	2,035,569	2,143,710	2,565,041	19.65%	6,275,925
316	Business Taxes	103,291	106,260	0	0		157,000
317	Excise Taxes	11,366	12,415	13,721	16,050	16.97%	26,700
318	Other Taxes	752,814	937,347	1,037,255	1,674,512	61.44%	2,419,000
310	Taxes	8,121,983	8,607,961	8,877,172	10,114,684	13.94%	18,888,389
320	Licenses and Permits	452,857	631,990	618,027	797,143	28.98%	1,033,314
330	Intergovernmental Revenue	4,390,782	4,202,899	4,278,477	4,794,254	12.06%	10,550,543
340	Charges for Goods and Svcs	2,374,834	2,358,359	2,430,210	1,945,087	-19.96%	3,733,634
350	Fines and Forfeits	167,171	135,134	134,604	170,052	26.34%	291,750
360	Miscellaneous Revenues	1,432,240	1,419,023	1,430,186	1,439,988	0.69%	2,737,948
380	Nonrevenues	434,608	1,025,549	37,775	24,626	-34.81%	150,000
390	Other Financing Sources	2,093,066	1,829,117	1,967,072	1,059,777	-46.12%	5,654,216
	<b>Total County Revenues</b>	<b>19,467,541</b>	<b>20,210,032</b>	<b>19,773,523</b>	<b>20,345,611</b>	<b>2.89%</b>	<b>54,469,654</b>



# General Fund Expenditures

The table below compares Current Expense expenditures through the second quarter of 2014 with expenditures through the same period in the three previous years, and expresses expenditures as a percentage of budget for the year.

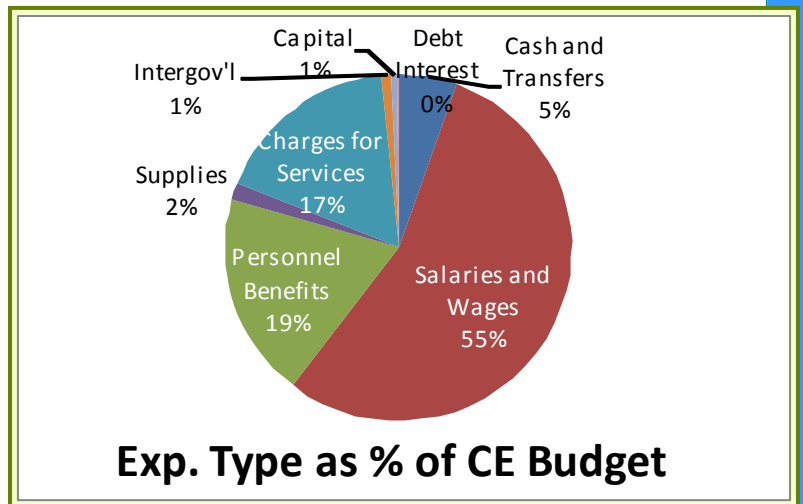
“Cash and Transfers” includes ending cash in the fund as well as transfers to other funds. Major transfers out of Current Expense include transfers to Parks and Fair, to Emergency Management, and to capital and rainy day reserve funds.

Expenditures on cash and transfers in 2014 are notable, compared to prior years, for two reasons. First, they are somewhat higher than previous years (except 2013) and notably above 50% of budget. The primary reason for both is a change in philosophy. Rather than make some transfers—such as that to Parks and Fair—quarterly through the year, the Auditor’s Office transferred the full budgeted amount at the beginning of the year. This change accommodates the need for spending at both the parks and the fairgrounds before the major summer revenue comes in. The other notable item in cash and transfers is the large amount transferred in the first half of 2013. Council allocated a large part of higher-than-budgeted beginning cash in 2013 to transfers to reserve funds and the grants fund. Those transfers

pushed the 2013 number much higher than normal.

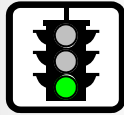
The only other type of expenditure which is higher than 50% in the first half is supplies. The high level of expenditure is attributable to expenditures on prescriptions for a couple of our incarcerated guests. The guests in question are no longer in our custody.

The high percentage (but very low dollar amount) spent on debt interest reflects an investment purchased at a premium. The premium is recorded as interest at the time of purchase, so that our investments can be reported at par value, rather than at cost.



Object Code	Expenditure Type	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014 Budget	% Used
0001	Current Expense						
00	Cash and Transfers	426,740	346,491	939,596	474,877	855,881	55.48%
10	Salaries and Wages	3,846,857	3,920,918	3,901,370	4,063,313	8,485,405	47.89%
20	Personnel Benefits	1,133,618	1,400,810	1,251,698	1,429,571	2,953,833	48.40%
30	Supplies	93,275	100,268	118,625	136,018	255,992	53.13%
40	Charges for Services	1,016,710	780,886	993,469	937,510	2,689,271	34.86%
50	Intergovernmental	40,161	48,480	23,815	22,800	122,700	18.58%
60	Capital Outlays	25,296	75,022	93,340	20,532	110,000	18.67%
80	Debt Service: Interest	2,148	1,750	819	3,418	5,000	68.38%
	<b>Total Current Expense</b>	<b>6,584,805</b>	<b>6,674,625</b>	<b>7,322,732</b>	<b>7,088,041</b>	<b>15,478,082</b>	<b>45.79%</b>





# Expenditures

Expenditures in all funds of the County are represented, by type, in the table below. Only intergovernmental spending

and debt interest are above 50%, and both only barely above. 25% of the rural sales and use tax which funds the Public Facilities Fund. The distribution for 2013 was made in the first quarter of 2014, skewing expenditures toward the first half of the year.

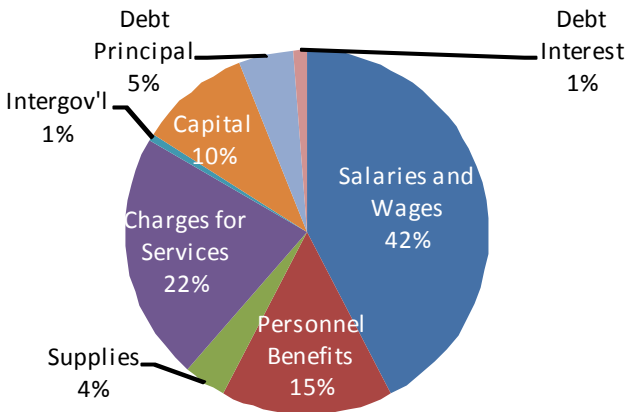
and debt interest are above 50%, and both only barely above.

Pie charts below and on the preceding page show expenditure types as percentages of total Current Expense and County budgets. For the County chart, cash and transfers are excluded from expenditures, because ending cash makes up a substantial amount of the budget yet does not represent a true expenditure.

Intergovernmental spending is a small part of total County spending, accounting for only \$265,000 of the County's \$54.5 million 2014 budget. Yet \$135,000, or 51% of that amount, was spent in the first quarter. The expenditure was virtually all in the Public Facilities Fund, a fund which makes awards to governmental agencies for improvements to publicly-owned capital facilities. The County gives the Town

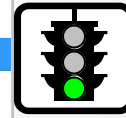
Payroll (salary and wages and personnel benefits) makes up by far the largest percent of expenditures in both the Current Expense Fund and the total County, followed in both cases by

Charges for Services. Charges for Services include a wide range of expenditures, including such disparate items as consultant fees and telephone lines. Most of the County's debts are paid out of the Bond Redemption Fund, so principal payments is a significant expenditure for the County, but not the general fund. Capital is also significant for the County but not the general fund, as most capital expenditures are out of the Capital Improvement Fund, the Roads Fund, or the utility funds.



**Exp. Type as % of County Budget**

Object Code	Expenditure Type	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014 Budget	% Used
00	Cash and Transfers	954,832	784,940	1,749,001	977,468	15,080,054	6.48%
10	Salaries and Wages	6,547,883	6,737,375	6,683,524	6,913,365	14,652,455	47.18%
20	Personnel Benefits	2,078,308	2,619,734	2,307,109	2,600,566	5,331,368	48.78%
30	Supplies	543,404	549,934	824,001	554,083	1,629,719	34.00%
40	Charges for Services	3,920,433	3,673,438	4,254,660	4,135,720	10,138,599	40.79%
50	Intergovernmental	182,300	180,404	119,724	135,332	265,244	51.02%
60	Capital Outlays	1,067,979	1,175,015	1,508,875	1,284,236	4,653,623	27.60%
70	Debt Service: Principal	715,038	1,202,823	264,784	83,085	2,161,290	3.84%
80	Debt Service: Interest	380,146	337,155	300,532	278,365	557,302	50.06%
90	Interfund Services	20,759	956	0	0	0	0.00%
<b>Grand Total</b>		<b>16,411,082</b>	<b>17,261,774</b>	<b>18,012,210</b>	<b>16,962,820</b>	<b>54,469,654</b>	



# General Fund Expenditures by Department

The tables below and to the right show expenditures through the second quarter of 2014, compared to budget and compared to each of the three previous years, for each department and fund in the County.

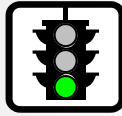
Departments whose expenditures exceeded 50% of budget are highlighted below. Elections is a little above 50% because of annual supply purchases and because of an unusual April election. The Law Li-

brary purchases books out of its small budget, and those purchases are not tied to an annual schedule.

The Prosecutor had a retirement and staffing overlap, but should be able to make up for it later in the year. Operating transfers were made early in the year rather than quarterly, and the Treasurer's tax

Dept #	Department	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014 Budget	% Used
<b>0001</b>	<b>Current Expense</b>						
13	County Administration	301,498	350,981	308,960	266,237	599,357	44.42%
16	Assessor	346,957	382,349	404,715	439,161	918,043	47.84%
19	Auditor	337,914	339,006	352,236	340,517	813,685	41.85%
22	Board of Equalization	11,145	2,254	3,376	1,804	7,947	22.70%
25	Facilities	219,039	245,439	229,980	243,051	528,865	45.96%
28	Civil Service	7,243	7,161	9,304	7,232	18,183	39.77%
31	Clerk	168,298	176,451	174,712	178,327	362,253	49.23%
34	County Council	237,801	253,913	225,312	246,094	492,649	49.95%
37	Dispatch / E911	440,553	451,815	412,224	457,105	1,035,738	44.13%
40	Community Dev'tt & Plng	632,026	619,442	684,976	764,208	1,559,392	49.01%
43	County Agent	86,371	93,075	88,920	95,800	205,345	46.65%
46	District Court/Probation	322,178	293,538	277,767	288,812	608,994	47.42%
49	Election Reserve	86,447	97,425	100,066	110,211	217,594	50.65%
52	General Administration	451,512	279,651	773,745	171,761	1,196,758	14.35%
55	Health & Community Svcs	527,390	525,089	579,885	620,222	1,342,165	46.21%
58	Jail	130,739	147,085	131,679	168,445	365,039	46.14%
61	Juvenile Court	184,085	160,129	150,474	180,046	393,351	45.77%
64	Law Library	14,804	8,923	7,454	12,111	22,893	52.90%
67	Operating Transfers	207,467	206,654	336,023	449,976	505,057	89.09%
73	Prosecuting Attorney	464,823	460,582	469,541	515,192	1,007,318	51.14%
76	Sheriff	1,136,577	1,300,660	1,340,566	1,244,845	2,723,176	45.71%
82	Superior Court	92,483	88,128	90,415	97,764	204,119	47.90%
85	Treasurer	177,455	184,875	170,402	189,120	350,161	54.01%
	<b>Total Current Expense</b>	<b>6,584,805</b>	<b>6,674,625</b>	<b>7,322,732</b>	<b>7,088,041</b>	<b>15,478,082</b>	<b>45.79%</b>
<b>0002</b>	<b>Grants Fund</b>						
00	Grants Clearing	0	0	100,000	0	92,384	0.00%
40	Planning Grants	251,060	250,635	165,384	193,555	726,416	26.65%
43	WSU Extension	500	500	500	0	500	0.00%
55	Health/Comm'ty Svcs Grts	879,340	838,257	1,081,039	730,692	2,037,106	35.87%
61	Juvenile Court Grants	61,071	38,121	32,503	42,993	117,550	36.57%
71	Emergency Mgt Grants	60,571	39,623	37,138	444,874	792,000	56.17%
73	Prosecutor Grants	97,857	95,624	110,846	99,735	233,460	42.72%
76	Sheriff Grants	63,315	56,115	46,939	79,087	522,212	15.14%
	<b>Total Grants Fund</b>	<b>1,413,714</b>	<b>1,318,875</b>	<b>1,574,349</b>	<b>1,590,936</b>	<b>4,521,628</b>	<b>35.19%</b>

# Other Fund Expenditures by Fund



statement costs occur all in the first half of the year. In the Grants Fund, Emergency Management has made 2 out of 3 payments on a new vessel.

Funds other than the general fund are typically used to account for revenues which are either legally restricted in how they can be used, or are assigned by the Council for specific uses. Because they are more project-oriented than the general fund, they are more likely to underspend their appropriated budgets than general fund departments, as individual projects are cancelled or delayed.

Three funds exceeded 50% of budget in the first half of 2014: Emergency Management, Dog License, and Information Technology. The Emergency Management Director works only 3/4 of the year, taking his time off in the summer. In the Dog License Fund, a large reimbursement for livestock killed by dogs pushed the fund over budget. Information Technology made substantial deferred capital purchases in the first half of the year.

Fund #	Fund	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	2014 Budget	% Used
0003	Budget Stabilization	0	0	0	0	484,836	0.00%
0004	Veterans' Assistance	15,429	28,885	31,770	29,029	80,000	36.29%
0005	Insurance Reserve	23,340	5,832	608	13,592	224,579	6.05%
0007	Emergency Mgt	74,765	54,997	46,989	49,500	91,577	54.05%
1021	Land Bank	589,397	789,720	495,640	562,456	1,960,658	28.69%
1031	LB Stewardship & Mgt	195,774	197,092	202,873	261,682	545,832	47.94%
1041	SJC Noxious Weeds	49,997	55,026	30,310	79,047	304,608	25.95%
1091	Parks & Fair	488,636	523,215	536,511	589,829	1,982,529	29.75%
1101	Treasurer's O&M	125	9	94	74	38,018	0.19%
1111	Dog License	11,295	11,297	11,754	13,982	24,350	57.42%
1121	County Roads	2,509,657	3,021,938	3,930,570	2,648,556	10,315,597	25.68%
1221	Lodging Tax Fund	294,142	364,327	396,141	287,895	1,531,691	18.80%
1251	Auditor Doc Pres	35,376	42,622	59,945	78,723	357,888	22.00%
1271	Crime Victims	0	15,633	0	0	8,099	0.00%
1281	Mental Health Tax	272,842	319,336	282,151	395,404	1,350,376	29.28%
1921	Septic Housing & Loans	161,813	94,057	87,287	68,092	529,566	12.86%
1951	Public Facilities	142,323	151,156	132,535	153,481	1,184,700	12.96%
1961	Affordable Housing	114,531	140,878	128,226	120,518	374,166	32.21%
1971	Criminal Justice	104,790	104,790	104,790	0	251,175	0.00%
2001	Bond Redemption	376,173	333,753	294,149	259,030	1,673,758	15.48%
3061	Capital Improvement	52,146	147,762	63,816	192,591	2,294,197	8.39%
4011	Solid Waste Fund	833,429	877,815	887,388	418,645	943,346	44.38%
4017	Solid Waste Projects	632,382	983,306	96,688	251,745	1,275,000	19.74%
4151	Stormwater Utility	58,930	73,400	140,361	352,852	1,229,196	28.71%
4157	Stormwater Utility Capital	46,579	18,479	6,554	10,807	161,230	6.70%
5011	ER&R	1,189,272	746,887	718,900	706,532	4,387,111	16.10%
5021	Information Technology	206,648	201,947	255,279	505,316	865,861	58.36%
	<b>Grand Total (non-general)</b>	<b>8,479,791</b>	<b>9,304,159</b>	<b>8,941,329</b>	<b>8,049,378</b>	<b>34,469,944</b>	<b>23.35%</b>
	<b>Grand Total All County</b>	<b>16,478,310</b>	<b>17,297,659</b>	<b>17,838,410</b>	<b>16,728,355</b>	<b>54,469,654</b>	<b>30.71%</b>

# Annual Audit and Internal Control

The County is currently wrapping up its annual audit by the State Auditor. Washington State is unusual in that audits of all public entities are required to be performed by the State Auditor, rather than by private sector businesses. Given the oversights evident in some high-profile private-sector audits (think “Enron”), that requirement probably makes sense.

## ANNUAL AUDIT

So, what do the State Auditors do when they’re here? Some people think it’s merely a financial audit, looking into the accuracy of financial reports, cash handling practices, safeguards against fraud, etc. In fact, there are three components to the audit: Financial Statement Audit, Accountability Audit, and Federal Grant Compliance Audit.

### Financial Statement Audit

This is the audit most people think of. The financial statement audit is conducted in accordance with government auditing standards, which require reasonable assurance that financial statements are free of material misstatement, whether caused by error, fraud or violations of laws or contracts. “Significant deficiencies and material weaknesses” in the internal controls over financial reporting must be reported. In addition, auditors are required to report noncompliance with laws, regulations, contracts and grant agreements that could have a direct and material effect on the accuracy of the financial statements.

### Accountability Audit

Closely related to the financial statement audit, accountability audits examine financial records to evaluate whether public funds are handled properly and in compliance with laws and regulations. State auditors evaluate whether effective internal controls are in place to promote accountability and encourage sound financial management practices. We’ll come back to the idea of internal control, below.



### Federal Grant Compliance Audit

The final component of the annual audit is the federal grant compliance audit. This audit is required when federal grant expenditures exceed \$500,000 in a fiscal year – which is every year in San Juan County. The audit is performed as prescribed by the Office of Management and Budget (OMB) Circular A-133. Auditors evaluate the effectiveness of internal controls and determine compliance with federal requirements of the examined programs.

## INTERNAL CONTROL

So, what is this “internal control” that is examined in every audit? Internal control can be a difficult

concept to grasp. It is defined as a process, which is affected by those charged with governance, designed to provide reasonable assurance of the following:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Components of internal control in

San Juan County include the tone and expectations set by management, including periodic training in ethics. Policies which clarify rules and expectations, such as the Travel Policy, are a part of the mix. Procedures such as multiple approval levels and segregation of financial duties are also part of internal controls.

Effective internal controls prevent losses of public funds or detect them in a timely manner. Governments should continually evaluate internal controls to ensure they are effective and updated when necessary.

Our annual visit from the state auditors, while it can at times be annoying and disruptive of our regular work, provides a valued external view into our operations, which prods us to examine our operations and controls, and reminds us that above all, we work for the people.