

**WHATCOM COUNTY
EXECUTIVE'S OFFICE**

County Courthouse

311 Grand Avenue, Suite #108
Bellingham, WA 98225-4082



Pete Kremen
County Executive

June 30, 2001

Citizens of Whatcom County:

We submit the Comprehensive Annual Financial Report of Whatcom County for the year ended December 31, 2001.

The responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe the data as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operation of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain an understanding of the County's financial activity have been included.

This report is presented in three sections, Introductory, Financial, and Statistical. In respect to the Financial Section, statements presented are further divided into two parts, which are distinguished according to the reporting level of data. They are as follows:

**A. General Purpose Financial Statements
(Combined Statements - Overview)**

The combined data presented in this section is required and the financial statements are in a form necessary to display a summary overview of the financial position of all funds and account groups and of the operating results of all funds by type. The combined formats of these statements include columns of aggregate data, which have been summarized from the more detailed combining and individual statements that follow in the next section.

**B. Combining and Individual Fund and
Account Group - Statements &
Schedules**

Combining financial statements are required for this reporting level in each instance where the County has more than one fund of a given type. Individual fund statements and schedules are presented for individual funds and account groups to assure detail disclosure not provided at the reporting level of the combining statements.

The notes provided in the Financial Section are considered essential to fair presentation and adequate disclosure for this financial report. The notes include the Summary of Significant Accounting Policies for the County and other necessary disclosure of important matters relating to the financial position of the County. The notes are treated as an integral part of the financial statements and should be read in conjunction with it.

REPORTING ENTITY

For financial reporting purposes, in compliance with Governmental Accounting Standards Board Statement No. 14, this CAFR includes financial data for all funds and account groups of Whatcom County.

GENERAL INFORMATION

Whatcom County was created by an act of the Legislative Assembly of the Territory of Washington on March 9, 1854. In the eighteenth century, the area was visited by Spanish and British explorers; Bellingham Bay was named by Captain George Vancouver. The legislature stipulated that the Whatcom County Courthouse shall remain permanently in the settlement of Whatcom (now a part of the City of Bellingham) as the county seat. For the first few years, all business and court were transacted at the home of R.V. Peabody on the west bank of Whatcom Creek.

Whatcom County is located in the northwest corner of Washington State. Its northern border is British Columbia, Canada. On the southern border is Skagit County, east is Okanogan County and to the west is Puget Sound. The County is 2,126 square miles in

size and about two thirds of the county are part of either the Mt. Baker National Forest or the North Cascades National Park. The Cascade Range runs through the central and western part of the county and Mt. Baker, a 10,775 foot peak, is in the center. All of the incorporated areas are within the western corridor. The county seat, Bellingham, is the major city of Whatcom County with about 40% of the county's total population. Bellingham is located 90 miles north of Seattle, the major metropolitan city in the State of Washington and 50 miles south of Vancouver, British Columbia. The population of Whatcom County in 2001 is estimated at 170,600.

Whatcom County operates under a Home Rule Charter adopted by the voters of the county in 1978. The County Council, which consists of six members elected by districts and one member at large, is the policy determining and legislative body of the County. The Council levies taxes, makes appropriations and adopts the budget for the County. The elected County Executive presents to the County Council an annual statement of the financial and governmental affairs of the County, the budget, and capital improvement plans. The county charter was amended in November 1993 to allow the establishment of a finance department. Effective July 1994, financial accounting and reporting responsibilities were transferred to an administrative finance department under the authority of the County Executive. At the same time, an independent internal audit function was established in the County Auditor's office. Tax collection, receipting and investment responsibilities are those of the elected County Treasurer.

The County provides a wide range of services, some to all citizens and some only to unincorporated areas. Services include road construction and maintenance, law enforcement, flood control, parks and recreation services, public health services, court services, agriculture services, tax assessment and collection, planning and zoning services, mental health services, fire inspections, animal control, criminal detention, election administration, solid waste and recycling, ambulance, medical examiner, and probation services.

Most funds in this report pertain to the entity Whatcom County Government. Certain agency funds exist to fill the County's custodial role for these agencies. Under state statute, the County Treasurer is the ex officio treasurer of most special purpose districts (fire, cemetery, water, drainage, public utility district). Money received from or for the special purpose districts is deposited in a central bank account and the Treasurer invests or disburses this money according to the instructions of the respective special purpose district's governing body or administrative officer.

ECONOMIC CONDITION AND OUTLOOK

The County serves a rapidly growing population, which has grown 33% since 1990. The County's greatest employment sector is "retail trade." In 2001 Whatcom County's workforce of approximately 82,000 people was distributed as follows:

Agriculture, Forestry, Fishing	4.4%
Mining	.2%
Construction	6.8%

Manufacturing	14.5%
Transport, Commun., Utilities	4.0%
Wholesale trade	4.2%
Retail trade	24.3%
Finance, Ins., Real estate	3.6%
Services	23.5%
Government	14.5%

International Transportation

Whatcom County is home to the highest volume border crossing between the United State and Canada. With its port, highway, rail and air facilities, Whatcom County's strategic physical location provides for an important international transportation hub.

The Port of Bellingham significantly contributes to the growing trade between Asia and North America, as well as the area's local economy. The Port has more than 2,000 acres of waterfront commercial and industrial property and it administers three federally designated foreign trade zones that promote manufacturing, warehousing and trade in the region. Over 320 companies operate on Port property. Offering tenants a high bandwidth fiber optics connection option, the Port provides a means for top-level global communications.

Developers are planning a new deep-water, bulk-shipping terminal at Cherry Point, the last undeveloped deep draft port on the Pacific Coast, located 11 miles northwest of Bellingham. They have received all federal, state and local permits except for an aquatic land lease from the Department of Natural Resources. Plans call for construction of several major international processing, distribution and shipping operations on this

1,070 acres. The Trillium Corporation has developed plans for attracting light industrial operations to their 1,100 acres Cherry Point property. They are also planning commercial and residential developments on approximately 800 acres in the Birch Point area.

Higher Education

Western Washington University (WWU) is one of six state-funded, four-year institutions of higher education in Washington State. WWU maintains 80 permanent buildings on its 200-acre main campus, a 95-acre off-campus facility in Anacortes and an 11-acre facility at nearby Lake Whatcom. The university's current enrollment is approximately 12,400. On-campus student enrollment is estimated to increase by 15 percent over the next decade. As one of the county's largest employers, WWU employed 1,700 full-time faculty and staff in the fall of 2001.

Retail Trade

Taxable retail sales in Whatcom County grew by \$31 million or 13%, between 1995 and 2000. Canadian trade is a significant strength of our regional economy. Cross-border trips were 18.5 million in 1998 and increased to 19.8 million in 1999.

Supermarket chains provide a major source of employment for Whatcom County. Haggen, Inc., the largest independent grocer and the seventh largest private company in the State of Washington, with 26 stores in Washington and Oregon (four in Whatcom County), is headquartered in Bellingham. With nine stores, Brown & Cole, Inc., also headquartered in Bellingham, employs over 900 people.

Since 1988, Whatcom County has been home to Bellis Fair Mall, an 800,000 square-foot regional mall with approximately 145 stores and a multi-screen cinema. Approximately 1,500 people are employed at Bellis Fair. Of the daily 45,000 mall shoppers, about 35% are Canadian.

FINANCIAL INFORMATION

The County's accounting system is organized and operated on a "fund basis." Each fund is a distinct self-balancing accounting entity. Various funds and account groups utilized by Whatcom County are fully described in Note 1-B of the Notes To The Financial Statements.

The modified accrual basis of accounting is followed by the governmental funds. Under this method of accounting, revenues are recognized when they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay the liabilities of the current period. Expenditures are recorded as liabilities when incurred. The accrual basis of accounting is utilized by proprietary funds.

Internal Controls

County management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with general accepted accounting principles. The internal control structure is designed to provide

reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls

The Whatcom County Code requires all funds to adopt a balanced budget at least 30 days prior to the beginning of the fiscal year. The legal level of budgetary control is at the department level for the General Fund and at the fund level for all other funds.

Administrative controls are in place through the use of line item budgeting and position control principles to facilitate budget

administration throughout the year. The County uses an encumbrance system to record commitments for goods and services when a commitment is made. At the end of each budget year most encumbrances expire. Those encumbrances relating to a contract commitment are carried forward to the next budget year with the authorization of the County Executive.

General Government Functions

The following schedule represents a summary of General Fund, special revenue funds, debt service, and capital projects fund revenues for the fiscal year ended December 31, 2001 and the amount and percentage of increases and decreases in relation to prior year amounts.

Revenues	2001 Amount	Percent of Total	Increase (Decrease) from 2000	Percent of Increase (Decrease)
Tax Revenues	47,424,567	55.80%	1,804,302	3.96%
Licenses & Permits	1,580,226	1.86%	48,959	3.20%
Intergovernmental Revenues	21,212,913	24.96%	383,173	1.84%
Fees For Service	7,776,574	9.15%	459,894	6.29%
Fines and Forfeits	1,763,991	2.08%	77,163	4.57%
Miscellaneous Revenue	5,233,563	6.16%	(177,946)	-3.29%
Total Revenues	84,991,834		2,595,545	

Tax revenues increased \$1,804,302 or 4% over the amount collected in 2000. Property taxes made up approximately 64% of the total tax revenue and increased by \$870,093 over 2000. Timber harvest tax revenues decreased \$121,822 from 2000. These revenues fluctuate from year to year because the timber harvested is on privately owned land. Retail sales tax revenues were up \$579,668 over 2000.

Intergovernmental revenues increased 2% over last year. In 2001, Whatcom County received an additional \$762,454 in revenue due to the passage of the Secure Rural Schools and Community Self-Determination Act. \$353,607 was received for Federal Forest Title I money to be spent on public roads and \$408,847 was received for Federal Forest Title III money to be spent on county projects. Federal in-lieu-of-tax revenues were up \$196,347 over 2000. In 2001, revenue received for the Park Road and Alderwood/ Airport Drive construction projects increased \$656,584 and \$729,562, respectively. Revenue received for the Yew Street Road construction project decreased \$1,632,069 for 2001.

Charges for services revenues exceeded 2000 revenues by \$459,894 or 6%. The Auditor's filing and recording fee revenue surpassed year-end 2000 by \$141,641. As interest rates dropped during the year, loan refinancing increased. This activity generated additional revenue. \$176,500 was collected during the year from the Nooksack Gambling Casino. This money is intended to pay for the impacts of the casino on law enforcement.

Miscellaneous revenues decreased \$177,946. Interest earnings decreased \$118,365 over 2000. Interest earnings are the result of the investment of excess cash from county and non-county funds. Interest rates fell throughout 2001, which resulted in lower revenue than year-end 2000. Whatcom County also paid a tax refund of \$345,204 to Trillium Corporation. Local Road Improvement District collections were up \$340,190 over 2000.

The following schedule represents a summary of General Fund, special revenue funds, debt service funds, and capital project funds expenditures for the fiscal year ended December 31, 2001 and the amount and percentage of increases and decreases in relation to prior year amounts.

Overall, expenditures were up in 2001 by \$4,869,695, or 8%. This increase was largely contributed to higher salary and benefit costs. There were no other significant fluctuations in the 2001 expenditures over the 2000 expenditures.

Expenditures	2001 Amount	Percent of Total	Increase (Decrease) from 2000	Percent of Increase (Decrease)
Current:				
General Government	16,713,972	20.64%	1,303,738	8.46%
Security Of Persons & Property	21,470,121	26.51%	2,202,779	11.43%
Physical Environment	4,757,938	5.87%	(217,908)	-4.38%
Transportation	13,528,035	16.70%	373,349	2.84%
Economic Environment	1,167,559	1.44%	41,237	3.66%
Mental & Physical Health	9,078,653	11.21%	859,131	10.45%
Culture & Recreation	3,417,835	4.22%	46,389	1.38%
Capital Outlay	8,617,635	10.64%	672,667	8.47%
Debt Service:				
Principal Retirement	1,232,728	1.52%	(327,228)	-20.98%
Interest	1,005,247	1.24%	(84,459)	-7.75%
Total Expenditures	80,989,723		4,869,695	

General Fund Balance

The General Fund ending fund balance decreased by \$711,237 in 2001 to \$16,142,488.

Proprietary Operations

The County's only enterprise fund is the Whatcom County Investment Pool Fund. This fund accounts for the operations of the Whatcom County Investment Pool.

The County operates three internal service funds: Equipment Rental, Administrative Services and Whatcom County Supplemental Retirement funds. The Equipment Rental fund provides repair, maintenance and rental services for cars, trucks and equipment owned by the County. Administrative Services fund

provides facility maintenance, general liability, self-insurance, finance, human resources and information services related activities. The Whatcom County Supplemental Retirement fund accounts for the County's supplemental retirement plan.

Fiduciary Operations

Pension Plan Funding

Substantially all County full-time employees participate in the statewide local government retirement system administered by the Washington State Department of Retirement. Rates paid by the County are set by the State legislature each biennium. The rates range from .23% to 1.77% of covered payroll, depending on the plan that the employee is enrolled in.

Agency Funds

The greatest number of Agency Funds held by the County are Special Purpose Districts. These districts are governed by popularly elected boards with the County having only fiduciary responsibilities. These districts include Rural Library, Northwest Regional Council, Council of Governments, Sewer & Diking Districts, Drainage Districts, Cemetery Districts, Fire Districts, Flood Control Districts, Port Districts, School Districts, Public Utility Districts, Water Districts, and Park and Recreation Districts. For some Agency Funds, the County only collects and remits certain revenues, mainly taxes. This group includes the State of Washington, seven cities and towns and a hospital district. The County maintains clearing funds to manage certain revenues to be distributed at a later date.

Debt Administration

On December 31, 2001, the County had a number of debt issues outstanding. These issues included \$17.0 million of general obligation bonds and \$802,600 of special assessment bonds. In addition, the County had outstanding long term contracts and capital leases of \$302,178. Under current State statutes, the County's indebtedness for general purposes is, without a vote of the people, limited to 1.5% of property value. With a 3/5 vote of the people, the general purpose indebtedness is limited to 2 1/2% of property value. As of December 31, 2001, the County's net combined general indebtedness of \$23.1 million is well below the legal limit of \$304 million.

Cash Management

Cash temporarily idle during the year is invested in commercial bank savings and loan certificates of deposit and repurchase agreements, as well as the State's investment pool. Cash is invested by the County Treasurer for Special Purpose Districts as allowed by law. Cash is invested directly for the benefit of several individual County funds, including, Administrative Services, Lake Management District No. 1, Sewer Construction, Road Improvement Guaranty, Solid Waste Management, Flood Control Zone, Parks Improvement, and LRID No. 10 Construction. The County Treasurer invests pooled residual cash to the benefit of the General Fund. Interest earned on investments to the General Fund in 2001 was \$3.2 million.

Risk Management

Whatcom County accounts for its self insurance activities in the Administrative Service Fund.

1. Unemployment compensation account reserves are accumulated at a rate of .005 (.5%) of each employee's wage (except elected officials).
2. Health Insurance benefit account is used to record medical, dental, vision, and life insurance coverage for employees.
3. Industrial Insurance covers medical payment and time loss payment for work-related injuries. The County has a self insured retention level of \$175,000 per occurrence.

4. Tort Claims Defense Fund. In October, 1988, the County entered into an interlocal agreement with 15 other counties to form the Washington Counties Risk Pool. The Pool's umbrella coverage is \$5,000,000 per occurrence and covers comprehensive general liability and public officials errors and omissions.

OTHER INFORMATION

Independent Audit

In accordance with state statutes, Whatcom County is subject to an annual comprehensive examination by the State Auditor's office. Their examination is conducted in accordance with generally accepted auditing standards, Standards for Audit of Governmental Organizations, Programs, Activities, and Functions; the Single Audit Act of 1984 (P.L.98-502) and Circular A128, Audits of State and Local Governments, issued by the U. S. Office of Management and Budget.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Whatcom County for its comprehensive annual financial report for the fiscal year ended December 31, 2000. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Distinguished Budget Presentation Award

Whatcom County was awarded GFOA's "Distinguished Budget Presentation Award" for its 2001 Budget.

Acknowledgments

Preparation of this report could not have been accomplished without the professional, efficient and dedicated service of the entire staff of our Administrative Services Finance office, the Treasurer's office, Public Works accounting office and the various department heads and employees who contributed to its preparation.

Respectfully Submitted,



Pete Kremen

County Executive

Elected Officials

as of December 31, 2001

ELECTED OFFICIALS

Executive	Term Ends January 11, 2004	Pete Kremen
Assessor	Term Ends January 11, 2004	Keith Willnauer
Auditor	Term Ends January 11, 2004	Shirley Forslof
Prosecuting Attorney	Term Ends January 13, 2003	David S. McEachran
Sheriff	Term Ends January 11, 2004	Dale Brandland
Treasurer	Term Ends January 11, 2004	Barbara Cory

COUNTY COUNCIL

District No. 1, Position A	Term Ends January 14, 2002	Ward Nelson
District No. 1, Position B.	Term Ends January 11, 2004	Daniel McShane
District No. 2, Position A	Term Ends January 14, 2002	Constance Hoag
District No. 2, Position B.	Term Ends January 11, 2004	Sam Crawford
District No. 3, Position A	Term Ends January 14, 2002	Robert Imhof
District No. 3, Position B.	Term Ends January 11, 2004	Barbara Brenner
Councilperson At Large	Term Ends January 14, 2002	Marlene Dawson

SUPERIOR COURT JUDGES

Department No. 1	Term Ends January 9, 2005	Michael Moynihan
Department No. 2	Term Ends January 9, 2005	Steven J Mura
Department No. 3	Term Ends January 9, 2005	David A. Nichols

DISTRICT COURT JUDGES

Position No. 1	Term Ends January 13, 2003	Ira Uhrig
Position No. 2	Term Ends January 13, 2003	Edward B. Ross

Whatcom County Organizational Chart



