

**WHATCOM COUNTY
EXECUTIVE'S OFFICE**

County Courthouse

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



Pete Kremen
County Executive

June 30, 2007

Citizens of Whatcom County:

We are pleased to submit the Comprehensive Annual Financial Report of Whatcom County for the year ended December 31, 2006, in accordance with the provision of Chapter 36.22 of the Revised Code of Washington. The financial statements are presented in conformity with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by the Office of the Washington State Auditor.

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. Whatcom County has established a comprehensive internal control system to provide a reasonable basis for making these representations. Internal controls are designed both to protect the government's assets from loss, theft, or misuse and to compile reliable information for the preparation of the County's financial statements in conformity with GAAP. The County's internal controls have been designed to provide reasonable assurance that the financial statements will be free from material misstatements. 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.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Whatcom County's MD&A can be found immediately following the report of the independent auditors.

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 2006 is estimated at 184,300.

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 expanding population, which has grown 9.98% since 2000. The County's greatest employment sector is "retail trade." Employment of Whatcom County's workforce of approximately 100,600 includes the following sectors:

Agriculture, Forestry, Fishing and Hunting	3.57%
Mining	.15%
Utilities	.20%
Construction	7.68%
Manufacturing	8.66%
Transportation and Warehousing	1.81%
Wholesale trade	3.04%
Retail trade	10.01%
Finance and Insurance	1.91%
Services	2.87%
Government	13.15%
Information	1.69%
Real Estate, Rental and Leasing	1.14%

Source: Washington State Business and Project Development, Department of Community, Trade & Economic Development.

International Transportation

Whatcom County is home to one of the highest volume border crossings between the United States 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.

Higher Education

Western Washington University (WWU) is one of six state-funded, four-year institutions of higher education in Washington State. WWU maintains 73 permanent buildings on its 215 acre main campus, a 95 acre off-campus facility in Anacortes and an 15 acre facility at nearby Lake Whatcom. The university's 2006 enrollment was 13,000. 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 2,100 full-time faculty and staff in the fall of 2005.

Retail Trade

Between 1996 and 2006, annual taxable retail sales in Whatcom County grew by \$1.4 billion or an 80% increase. Currently booming construction activity is generating strong retail sales and the strong Canadian dollar makes shopping in Whatcom County attractive to residents of British Columbia.

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.

Bellingham Waterfront Redevelopment

On January 20, 2005, the Port of Bellingham acquired approximately 137 acres of waterfront property previously owned by Georgia Pacific Corporation. Georgia Pacific continues to operate a tissue mill on the site through a lease with the Port. Acquiring the Georgia Pacific property is the first step in a long-term environmental restoration and redevelopment of Bellingham's waterfront. The Port and the City are working together to create a development plan for the property. Once the plan is approved, environmental remediation is complete, and infrastructure is installed, the properties will become available for purchase. Developers will construct the property improvements (buildings) consistent with the approved plan. The estimated value of the property once developed is \$750 million to 1 billion dollars. Full development of the project is anticipated to take approximately 20 years.

MAJOR INITIATIVES

The following is a summary of major initiatives that will be implemented in the 2007-2008 Biennium.

Concurrency & Growth Management

The biennial budget includes \$1.3 million for new parks projects and parks facilities upgrades, the addition of a Design and Development Supervisor for parks projects, the addition of a Critical Areas Ordinance planning position and the funding to continue a temporary Growth Management position in Planning and Development Services. It also includes the addition of a Land Use Policy Analyst to assist County Council members in making quality land use decisions, the addition of one full-time and one half-time position in Public Works to

implement storm water regulations, \$100,000 for a Birch Bay community incorporation study, and \$70,000 to help fund the community-wide long-term planning project. In addition, to address growth issues, we will be adding six new Sheriff's deputies including two specific neighborhood deputies for urban growth areas, and six new road crew worker positions to alleviate safety concerns resulting from road congestion. Planning and Development Services and Public Works are redesigning the building permit process to improve efficiency and effectiveness. This project includes \$150,000 funding to streamline the zoning and subdivision code.

Agriculture

Over the next biennium, we will be adding a planning position in Planning and Development Services to work specifically with the agricultural community on issues that affect this vital sector of our economy. In addition, Whatcom County will invest \$150,000 in a Conservation Program for Agricultural Lands (CPAL), \$120,000 for consultant support for the agriculture program and \$127,000 to support the Integrated Pest Management Program through WSU Extension.

Lake Whatcom Watershed and Other Water Resources

This budget includes significant funding aimed at protecting and preserving our water resources in Whatcom County. In addition to the positions mentioned above to implement storm water regulations, the budget contains \$330,000 to pursue conveyance to Whatcom County of a substantial amount of Department of Natural Resource trust land located in the Lake Whatcom Watershed. We will maintain this land as parkland for the use of future generations. \$1.1 million has also been appropriated for various water resource projects including Lake Whatcom management, salmon habitat restoration, marine resources projects, monitoring support for Bertrand and Ten Mile Creeks, and water resource priority project development.

State law also mandates a major new program requiring inspection of all septic systems on a regular basis. We have added four positions to the Health Department to implement this program, and expect fee revenues to cover the program costs. The program will begin in 2007 with critical watersheds given first priority.

Natural Disasters/Pandemics

Through the coordination and facilitation of exercises and planning sessions by the Sheriff's Office Department of Emergency Management and the Health Department, the county is well on its way to achieving preparedness against disasters and pandemics. The Emergency Management budget includes funding from the Department of Homeland Security for planning, training, and exercises for first responders across the community. The Health Department has created a Disease Response and Control Unit to investigate possible disease conditions and provide technical assistance to local health care personnel.

Facilities Investments

In conjunction with projects envisioned in the county's Capital Improvements Plan (CIP), the budget contains funding for the initial phases of several capital projects. Park planning projects include South Fork County Park, Sunnyside Landing, Dittrich Park, extensions to Chuckanut Mountain Trails, and the Olsen Property Trail. Funding is included for engineering studies for the Civic Center Annex parking structure repair, the jail and juvenile controls replacement, and the Courthouse exterior façade repair. Whatcom County plans to replace single pane windows in the Courthouse, and remodel the basement. We will also demolish the 401 Grand Ave building, which is at the end of its useful life. Initial planning for the new Smith & Northwest Consolidated Services Building is also budgeted. Several unfinished road projects are included in the budget. We will adopt other multi-year facilities and road capital projects in phases as capital project budgets throughout the 2007-2008 biennium. The county expects to issue bonds in 2008 or 2009 to begin funding several capital projects included in the CIP. These projects include acquisition of the Central Plaza Building currently leased for the Public Defender, acquisition of land for the new long-term jail facility and Sheriff's Office, and construction of the Consolidated Services Building mentioned above.

Productivity Through Technology

One of the largest areas of investment in this budget is in the area of technology. Over \$1 million is budgeted for improvements in the Information Technology Division of Administrative Services. This will include the addition of four positions and significant investments in the areas of support for GIS, law & justice and other departmental applications support. Significant technology investments are budgeted to improve efficiencies in the Sheriff's Department through electronic report writing capabilities, laptops in vehicles, and a firearms training simulator. The Auditor's Office is implementing technology to improve access to on-line records and signature verification for elections.

Significant Changes from Prior Biennium

A change in governmental accounting rules requiring governments to record the liability for unfunded post-retirement benefits has led to the decision to fund a law enforcement officer health benefit reserve at \$3.5 million. The reserve will be tapped when annual benefit amounts exceed the standard amount budgeted per employee during the biennial budget process. This reserve is approximately half of the amount needed to fund post-retirement medical benefits, exclusive of required long-term care benefits.

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 A133, 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, 2005. 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 2005-2006 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 County Executive's office, County Treasurer's office, Public Works accounting office and the various department heads and employees who contributed to its preparation. We also recognize the professional efforts of the State Auditor's Office in their audit, and in the direction and advice they provide to us throughout the year.

Respectfully Submitted,



Pete Kremen

County Executive

Elected Officials

as of December 31, 2006

Executive	Term Ends January, 2008	Pete Kremen
Assessor	Term Ends January, 2008	Keith Willnauer
Auditor	Term Ends January, 2008	Shirley Forslof
Prosecuting Attorney	Term Ends January, 2011	David S. McEachran
Sheriff	Term Ends January, 2008	Bill Elfo
Treasurer	Term Ends January, 2008	Barbara Cory

COUNTY COUNCIL

District No. 1, Position A	Term Ends January, 2010	Ward Nelson
District No. 1, Position B.	Term Ends January, 2008	Daniel McShane
District No. 2, Position A	Term Ends January, 2010	Laurie Caskey-Schreiber
District No. 2, Position B.	Term Ends January, 2008	Sam Crawford
District No. 3, Position A	Term Ends January, 2010	Carl Weimer
District No. 3, Position B.	Term Ends January, 2008	Barbara Brenner
Councilperson At Large	Term Ends January, 2010	Seth Fleetwood

SUPERIOR COURT JUDGES

Department No. 1	Term Ends January, 2009	Ira Uhrig
Department No. 2	Term Ends January, 2009	Steven J Mura
Department No. 3	Term Ends January, 2009	Charles Synder

DISTRICT COURT JUDGES

Position No. 1	Term Ends January, 2011	David Grant
Position No. 2	Term Ends January, 2011	Matthew Elich

Whatcom County Organizational Chart



