

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

June 12, 2003

County Council

We have audited the accompanying basic financial statements of Whatcom County, Washington, as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Our audit was performed pursuant to the *Revised Code of Washington* 43.09.260, under which a full report on the results of this audit will be issued. This report may include findings and recommendations on compliance matters, internal control procedures, and questionable costs or contingencies that would not be material in relation to the basic financial statements taken as a whole.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Whatcom County, Washington, as of December 31, 2002, and the changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2002, the County has implemented Governmental Accounting Standard's Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments, Omnibus*; and Statement 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards* in the United States of America, we will also issue our report on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages 11 through 21, budgetary comparison information on pages 58 through 60, and pension trust fund information on pages 44 through 49, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report continued

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying introductory section, pages 1 - 8; combining and individual nonmajor fund financial statements, pages 61 - 157; and statistical tables pages 160 - 176; are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole. The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is written in a cursive, flowing style with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2002

This discussion and analysis of Whatcom County's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2002. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to the financial statements.

Financial Highlights

At the end of 2002 on a government-wide financial statement basis, Whatcom County's net assets totaled \$184,513,437. Net assets are calculated by subtracting the liabilities of the County from its total assets. \$41,523,731 of the County's net assets are unrestricted as defined by the Government Accounting Standards Board and may be used to meet the government's ongoing obligations to citizens and creditors.

The County's total debt decreased by \$1,660,161 during 2002. No new debt was issued during the year. Under Washington State law, the County is authorized to issue approximately \$189 million in non-voted debt. At the end of 2002, the County's outstanding general obligation debt totalled \$16 million.

Whatcom County's total net assets increased by \$9,131,244, resulting primarily from the construction or purchase of capital assets. The County invested 6.7 million dollars in infrastructure, which includes roads, bridges and road related improvements. Whatcom County purchased \$841,000 of land, including approximately 370 acres in the Lake Whatcom watershed, to protect the lake's water quality and 9 acres to mitigate flood hazards. The County's investment in new equipment, including vehicles and road maintenance equipment, increased net assets by one million dollars. The balance of the net increase was primarily cash and receivables.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. The statements report information about the County as a whole using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses.

The Statement of Net Assets presents information on all the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

However, this is just one indicator of financial health of the County. Other indicators include the condition of the County's capital assets (roads, building, bridges, etc.), changes in the property tax base, and general economic conditions within the County.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

In the Statement of Net Assets and the Statement of Activities, we separate the County as follows:

- **Governmental activities:** Most of the County's basic services are reported in this category, including general government, security of persons and property, physical environment, transportation, economic environment, mental and physical health, and culture and recreation. Property and sales taxes, user fees, interest income, and state and federal grants finance most of these activities.
- **Business-type activities:** The County charges a fee to customers to cover all or most of the cost of certain services it provides. The Whatcom County Investment Pool is reported in this category.

Fund Financial Statements. The fund financial statements provide detailed information about the most significant funds-not the County as a whole. Some funds are required to be established by State law. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds:** Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.
- **Proprietary funds:** When the County charges customers for the full cost of the services it provides whether to outside customers or to other units of the County, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise fund (one type of proprietary

fund) is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other type of proprietary fund), such as the County's Administrative Services Fund, to report activities that provide supplies and services to the County's other programs and activities.

- **Fiduciary funds:** The County uses these funds to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Government-Wide Financial Analysis

Since this year is the initial implementation of GASB No. 34, prior year comparative information is not available. However, in future years when prior year information is available, a comparative analysis of government-wide information will be presented. The following table reflects a condensed Statement of Net Assets.

Table MDA1 Net Assets

	Net Assets		
	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$ 76,596,541	\$ 14,024	\$ 76,610,565
Capital assets	136,288,158	-	136,288,158
Total assets	<u>212,884,699</u>	<u>14,024</u>	<u>212,898,723</u>
Long-term debt	17,015,346	-	17,015,346
Other liabilities	11,358,004	11,936	11,369,940
Total liabilities	<u>28,373,350</u>	<u>11,936</u>	<u>28,385,286</u>
Net assets:			
Invested in capital, net of debt	120,458,158	-	120,458,158
Restricted/ Unrestricted	64,053,191	2,088	64,055,279
Total net assets	<u>\$ 184,511,349</u>	<u>\$ 2,088</u>	<u>\$ 184,513,437</u>

For more detailed information see page 23 of the Statement of Net Assets.

The following table reflects a condensed Statement of Changes in Net Assets.

Table MDA2 Changes in Assets

	Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues			
Program revenue:			
Charges for services	\$ 12,454,797	\$ -	\$ 12,454,797
Operating grants and contributions	14,394,509	-	14,394,509
Capital grants and contributions	6,600,775	-	6,600,775
General revenue:			
Property taxes	32,594,343	-	32,594,343
Timber taxes	263,688	-	263,688
Retail taxes	10,158,252	-	10,158,252
Excise taxes	5,752,026	-	5,752,026
Penalties and interest	1,665,074	-	1,665,074
Other	5,731,672	188,851	5,920,523
Total revenues	<u>89,615,136</u>	<u>188,851</u>	<u>89,803,987</u>
Expenses			
General government	17,983,238	-	17,983,238
Security of persons and property	22,976,236	-	22,976,236
Physical environment	6,538,602	-	6,538,602
Transportation	18,049,900	-	18,049,900
Economic environment	1,320,929	-	1,320,929
Mental and physical health	9,217,719	-	9,217,719
Culture and recreation	3,490,177	-	3,490,177
Interest on long-term debt	909,179	-	909,179
Whatcom County Investment Pool	-	186,763	186,763
Total Expenses	<u>80,485,980</u>	<u>186,763</u>	<u>80,672,743</u>
Change in net assets	<u>9,129,156</u>	<u>2,088</u>	<u>9,131,244</u>
Net assets-beginning	<u>175,382,193</u>	<u>-</u>	<u>175,382,193</u>
Net assets-ending	<u>\$ 184,511,349</u>	<u>\$ 2,088</u>	<u>\$ 184,513,437</u>

For more detailed information see page 24 of the Statement of Activities.

Financial Analysis of the County's Funds

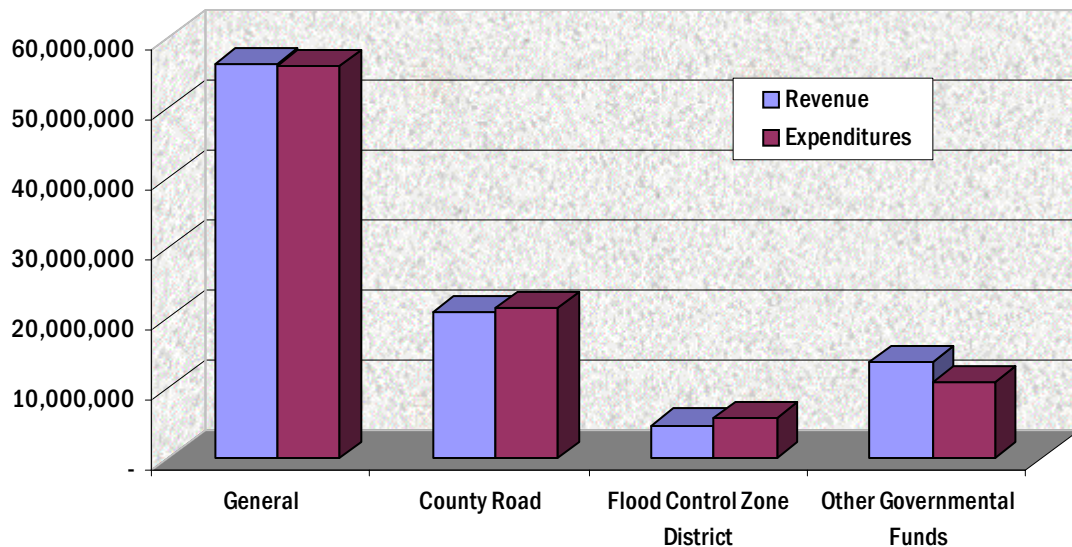
Governmental Funds Balance Sheet Analysis. The General Fund, County Road Fund, and Flood Control Zone District Fund are the County's major funds. Together these three funds account for 73% of total governmental fund assets and 70% of total governmental fund balance.

As of December 31, 2002, the County's governmental funds reported combined fund balances of \$52 million. Of the total amount, nearly \$47 million or 90% is unreserved and available for spending within designated funds. Reserved fund balance of \$5 million is not available for new spending because it has already been committed to encumbrances, petty cash, and debt service.

Governmental Funds Revenue/Expenditure Analysis. The chart below compares revenues and expenditures for the major governmental funds and all other governmental funds combined for 2002.

Table MDA3 Governmental Fund Revenues & Expenditures

Governmental Fund Revenues & Expenditures



For the fiscal year ended December 31, 2002, governmental funds revenues totaled \$95.4 million and expenditures totaled \$94.1 million. The General Fund, County Road Fund and Flood Control Zone District Fund account for 86% of all governmental fund revenue and 88% of expenditures.

The net change in fund balance for all governmental funds for 2002 was an increase of \$1.3 million.

General Fund Budgetary Highlights

The following table shows a condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual for the General Fund for the year ended December 31, 2002.

Table MDA4 Condensed General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance

General Fund

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Revenues:			
Taxes	\$ 27,996,630	\$ 27,996,630	\$ 28,171,111
Intergovernmental	12,815,908	13,661,221	13,214,714
Other	<u>11,710,614</u>	<u>12,209,278</u>	<u>12,766,553</u>
Total revenues	52,523,152	53,867,129	54,152,378
Expenditures:			
Expenditures	53,589,327	55,275,219	52,505,900
Other financing sources (uses)	<u>(1,525,160)</u>	<u>(1,745,590)</u>	<u>(1,293,530)</u>
Total expenditures	55,114,487	57,020,809	53,799,430
Change to fund balance	<u>\$ (2,591,335)</u>	<u>\$ (3,153,680)</u>	<u>\$ 352,948</u>

For more detailed information see page 59 of the Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual.

Tax Revenues. Tax revenues exceeded budgeted amounts by \$174,481, or less than 1%. Property tax collections in 2002 totaled \$17,869,587 and were \$603,000 greater than 2001 collections. The increase in property taxes was the result of new construction added to the tax rolls, rather than tax rate increases. Retail sales tax collections totaled \$8,129,820 for 2002, which is \$327,000 greater than 2001 collections.

Intergovernmental Revenues. The budget for intergovernmental revenues was increased \$845,313 for grant awards that were received during the year. Total intergovernmental revenue was basically the same in 2001 and 2002. Actual revenue fell short of budgeted revenue due to grant-related programs that did not progress as fast as planned.

Other. Building related revenues, including building permits and plan check fees, were up \$446,000, or 29.3%, over 2001. This is the result of strong new residential construction in Whatcom County. Fines and Forfeits were up \$338,000 from 2001. This is the result of a fully staffed Highway Patrol office, a new campaign to enforce seat belt laws ("Click-it or Ticket"), and new Sheriff's deputies writing more traffic infractions.

Expenditures. The General Fund budget was increased \$1,685,892 in 2002. Continuing appropriations for projects and contracts carried over from 2001 accounted for \$387,000 of this increase. There was a \$300,000 increase for Sheriff's Department overtime to provide security at the Bellingham International Airport. This was reimbursed by the Port of Bellingham. A supplemental budget amendment totalling \$595,249 for employee wage settlements was approved. The budget was increased for costs related to grants received during 2002. These costs totaled \$762,251.

95% of the General Fund's approved budget was expended at year-end. \$622,000 of the \$2.8 million in unexpended appropriation will be continued and added to the 2003 budget.

Whatcom County ended 2002 in a financial position better than what was anticipated in the 2002 budget. This is the result of better than projected sales tax revenue, interest earnings, and midyear adjustments that increased some fees and decreased some costs. The amended budget anticipated a decrease in fund balance of \$3,153,680. The actual result was an increase in fund balance of \$352,948. Whatcom County's General Fund fund balance is \$16,495,343 at year end. This is 31% of annual General Fund expenditures.

County Road Fund Budgetary Highlights

The following table shows a condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual for the Road Fund for the year ended December 31, 2002.

Table MDA5 Condensed County Road Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance

Road Fund

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	\$ 12,292,000	\$ 12,292,000	\$ 12,108,773
Intergovernmental	7,621,792	7,621,792	6,600,775
Other	1,299,909	1,299,909	1,319,114
Total revenues	<u>21,213,701</u>	<u>21,213,701</u>	<u>20,028,662</u>
Expenditures:			
Expenditures	24,550,484	25,308,094	21,030,309
Other financing sources (uses)	564,952	564,952	339,669
Total expenditures	<u>23,985,532</u>	<u>24,743,142</u>	<u>20,690,640</u>
Change to fund balance	<u>\$ (2,771,831)</u>	<u>\$ (3,529,441)</u>	<u>\$ (661,978)</u>

The Road Fund's budget was increased \$757,610 during the year, principally for continuing appropriations carried forward from 2001. Actual revenues were \$1,185,039 less than budgeted. This is largely due to delays on grant funded construction projects. Expenditures fell short of budget by \$4,277,785. This is also largely due to construction delays. The Road Fund ended the year with a fund balance of \$10,613,793. This is 50% of annual expenditures.

Flood Control Zone District Budgetary Highlights

The following table shows a condensed Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual for the Flood Control Zone District Fund for the year ended December 31, 2002.

Table MDA6 Condensed Flood Control Zone District Schedule of Revenues, Expenditures, and Changes in Fund Balance

Flood Control Zone District Fund

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	\$ 3,676,375	\$ 3,676,375	\$ 3,985,394
Intergovernmental	1,328,350	1,328,350	350,657
Other	597,500	597,500	364,036
Total revenues	<u>5,602,225</u>	<u>5,602,225</u>	<u>4,700,087</u>
Expenditures:			
Expenditures	4,445,810	5,087,927	2,478,163
Other financing sources (uses)	(1,873,333)	(2,854,333)	(3,329,338)
Total expenditures	<u>6,319,143</u>	<u>7,942,260</u>	<u>5,807,501</u>
Change to fund balance	<u>\$ (716,918)</u>	<u>\$ (2,340,035)</u>	<u>\$ (1,107,414)</u>

The Flood Control Zone District budget was increased \$642,117 to carry forward appropriation for projects & studies begun in 2001. During the year a supplemental budget amendment for \$981,000 was approved to increase operating transfers out. The supplemental budget amendment funded several studies surrounding water quality and water availability. Revenues fell short of budget by \$902,138. This is largely due to delays in grant funded projects. Expenditures fell \$2,609,764 short of budget. This is the result of delays in projects and planned property purchases. The Flood Control District ended the year with a fund balance of \$9,146,887. This is 369% of annual expenditures.

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2002, amounted to \$136.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

Table MDA7 Capital Assets

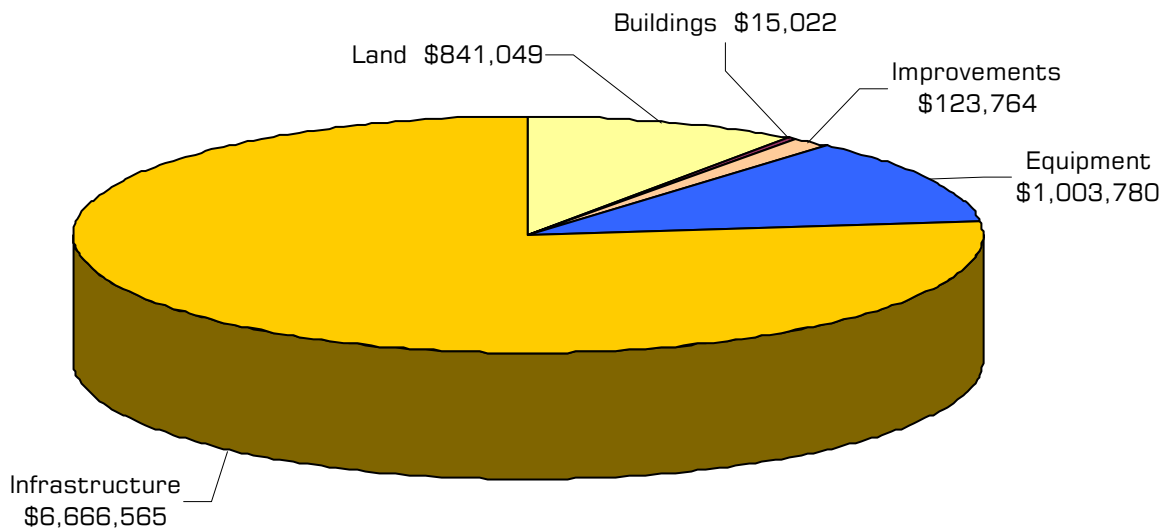
Capital Assets (net of depreciation)

	Governmental Activities
Land	\$21,248,857
Buildings	40,018,574
Improvements	929,244
Equipment	7,628,961
Infrastructure	66,462,522
TOTALS	\$136,288,158

The total increase in the County's investment in capital assets for 2002 was \$8.7 million, or 4.6 % over 2001.

Table MDA8 Change in Capital Assets

Change in Capital Assets



The County invested 6.7 million dollars in infrastructure, which includes roads, bridges and road-related improvements. Whatcom County purchased \$841,000 of land, including approximately 370 acres in the Lake Whatcom watershed, to protect the lake's water quality and nine acres to mitigate flood hazards. The County's investment in new equipment, including vehicles and road maintenance equipment increased capital assets by one million dollars.

Debt Administration

At year-end, the County had \$23.6 million in outstanding debt compared to \$25.3 million last year. That is a decrease of \$1.7 million, or 6.6%.

Table MDA9 Outstanding Debt

	Outstanding Debt	
	Governmental Activities	
	2002	2001
General Obligation Bonds	\$16,008,261	\$17,181,031
Special Assessment	422,150	802,600
Capital Leases	334,935	302,178
Estimated Self-Insurance Claims	2,655,310	2,921,855
Compensated Absences	3,944,731	3,817,884
Other Long-term Liabilities	250,000	250,000
	<u>\$23,615,387</u>	<u>\$25,275,548</u>

Economic Factors and Next Year’s Budgets and Rates

The local economy of Whatcom County remains strong. The population of Whatcom County has grown at an average rate of 2.3 percent during the past five years. Per capita income of Whatcom County is growing at approximately three percent. Unemployment has remained consistent, averaging 5.7 percent over the past five years. The two largest employers in the community, Western Washington University and St. Joseph Hospital, are growing steadily and have both recently made significant investments to expand their facilities. Retail sales have consistently grown over the past five years, averaging approximately three percent annual growth. Whatcom County is a very desirable place to live. This is reflected in the assessed valuations of property, which are growing at an average rate of approximately four percent.

Contacting the County’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County’s finances and to show the County’s accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Whatcom County Administrative Services Finance Office at 311 Grand Avenue, Bellingham, Washington, 98225.



	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 67,345,113	\$ 11,936	\$ 67,357,049
Investments	1,438,620	-	1,438,620
Receivables	2,974,737	-	2,974,737
Due from other governments	3,559,680	-	3,559,680
Internal balances	(2,088)	2,088	-
Inventories	1,239,710	-	1,239,710
Investment in joint ventures	40,769	-	40,769
Capital assets:			
Non-depreciable	21,248,857	-	21,248,857
Depreciable, net	115,039,301	-	115,039,301
Total Assets	212,884,699	14,024	212,898,723
Liabilities			
Accounts Payable and accrued expenses	3,709,125	55	3,709,180
Due to other governments	444,702	85	444,787
Deferred revenue	604,136	-	604,136
Compensated absences	3,944,731	11,796	3,956,527
Estimated claims	2,655,310	-	2,655,310
Long-term liabilities (Note 8):			
Due within one year	1,430,614	-	1,430,614
Due in more than one year	15,584,732	-	15,584,732
Total Liabilities	28,373,350	11,936	28,385,286
Net Assets			
Invested in capital assets, net of related debt	120,458,158	-	120,458,158
Restricted for:			
Special Revenue	14,358,532	-	14,358,532
Debt Service	176,505	-	176,505
Capital Projects	7,996,511	-	7,996,511
Unrestricted (deficit)	41,521,643	2,088	41,523,731
Total net assets	\$ 184,511,349	\$ 2,088	\$ 184,513,437

Notes to the financial statements are an integral part of this statement.

Functions/ Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 17,983,238	\$ 3,245,552	\$ 4,759,756	\$ -	\$ (9,977,930)		\$ (9,977,930)
Security of persons and property	22,976,236	4,205,406	3,027,824	-	(15,743,006)		(15,743,006)
Physical environment	6,538,602	813,201	857,987	-	(4,867,414)		(4,867,414)
Transportation	18,049,900	1,972,705	-	6,600,775	(9,476,420)		(9,476,420)
Economic environment	1,320,929	199,754	143,804	-	(977,371)		(977,371)
Mental and physical health	9,217,719	1,700,738	5,600,104	-	(1,916,877)		(1,916,877)
Culture and recreation	3,490,177	317,441	5,034	-	(3,167,702)		(3,167,702)
Interest on long-term debt	909,179	-	-	-	(909,179)		(909,179)
Total governmental activities	80,485,980	12,454,797	14,394,509	6,600,775	(47,035,899)		(47,035,899)
Business-type activities:							
Whatcom County Investment Pool	186,763	188,851	-	-		\$ 2,088	2,088
Total business-type activities	186,763	188,851	-	-		2,088	2,088
Total primary government	\$80,672,743	\$12,643,648	\$14,394,509	\$ 6,600,775	(47,035,899)	2,088	(47,033,811)
General Revenues:							
Taxes:							
Property taxes					32,594,343	-	32,594,343
Timber taxes					263,688	-	263,688
Retail taxes					10,158,252	-	10,158,252
Excise taxes					5,752,026	-	5,752,026
Penalties and interest					1,665,074	-	1,665,074
Unrestricted investment earnings					3,114,455	-	3,114,455
Gain/loss on sale of capital assets					1,349,487	-	1,349,487
Miscellaneous					1,267,730	-	1,267,730
Transfers					-	-	-
Total general revenues, special items & transfers					56,165,055	-	56,165,055
Change in net assets					9,129,156	2,088	9,131,244
Net assets-beginning					175,382,193	-	175,382,193
Net assets-ending					\$184,511,349	\$ 2,088	\$ 184,513,437

Notes to the financial statements are an integral part of this statement.

	General	County Road	Flood Control Zone District	Other Gov't Funds	Total Gov't Funds
Assets					
Cash and cash equivalents	\$ 16,732,850	\$ 10,928,010	\$ 9,124,789	\$ 15,276,720	\$ 52,062,369
Deposits with fiscal agent	442	-	-	-	442
Investments at cost	-	-	-	31,860	31,860
Taxes receivable	1,014,448	750,298	-	86,377	1,851,123
Accounts receivable	234,360	71,667	17,590	193,607	517,224
Special assessments	-	-	-	4,682	4,682
Interest receivable	243,330	-	(3)	98	243,425
Notes receivable	-	-	-	111,407	111,407
Due from other funds	-	22,380	11,542	-	33,922
Due from other governments	2,608,406	53,708	117,744	278,576	3,058,434
Employee advances	15,594	5,806	-	1,055	22,455
Prepayments	3,306	-	-	12	3,318
Long-term assets					
Due from other governments	500,000	-	-	-	500,000
Notes receivable	127,388	-	-	-	127,388
Investment in joint ventures	-	-	-	40,769	40,769
Total Assets	\$ 21,480,124	\$ 11,831,869	\$ 9,271,662	\$ 16,025,163	\$ 58,608,818
Liabilities and fund balance					
Liabilities					
Accounts payable	\$ 1,905,726	\$ 205,308	\$ 121,535	\$ 248,549	\$ 2,481,118
Due to other funds	45,420	22,910	3,240	12,817	84,387
Revenue collected in advance	-	3,410	-	51	3,461
Due to other governments	425,239	11,416	-	1,880	438,535
Other accrued liabilities	86,495	102,401	-	362	189,258
Other current liabilities	-	3,765	-	-	3,765
Deferred revenue	2,507,180	821,935	-	202,466	3,531,581
Deferred credits	14,628	46,931	-	-	61,559
Total liabilities	4,984,688	1,218,076	124,775	466,125	6,793,664
Fund balances					
Reserved for:					
Encumbrances	621,715	1,752,885	544,323	855,254	3,774,177
Petty cash	42,730	1,200	-	70,200	114,130
Federal Forest Title III	358,347	-	-	-	358,347
Debt service	-	-	-	245,226	245,226
Unreserved	15,472,644	8,859,708	8,602,564	-	32,934,916
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	6,831,800	6,831,800
Capital projects funds	-	-	-	7,556,558	7,556,558
Total fund balance	16,495,436	10,613,793	9,146,887	15,559,038	51,815,154
Total liabilities and fund balance	\$ 21,480,124	\$ 11,831,869	\$ 9,271,662	\$ 16,025,163	\$ 58,608,818

Notes to the financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet
to the Statement of Net Assets
of Governmental Activities
December 31, 2002



Fund balance - total governmental funds	\$ 51,815,154
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	128,033,025
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	21,984,160
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	2,927,445
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(20,248,435)</u>
Net assets of governmental activities.	<u>\$ 184,511,349</u>

Notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures,
and Changes in Fund Balance
Governmental Funds
Year Ended December 31, 2002



	General	County Road	Flood Control Zone District	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 28,171,111	\$ 12,108,773	\$ 3,985,394	\$ 4,992,666	\$ 49,257,944
Licenses and permits	1,709,737	50,271	-	-	1,760,008
Intergovernmental	13,214,714	6,600,775	350,657	802,526	20,968,672
Charges for service	5,870,902	1,256,299	58,835	1,510,917	8,696,953
Fines and forfeits	1,524,102	-	-	422,862	1,946,964
Miscellaneous	3,661,812	12,544	305,201	316,676	4,296,233
Total revenues	54,152,378	20,028,662	4,700,087	8,045,647	86,926,774
Expenditures					
Current:					
General government	15,907,574	134,911	-	821,392	16,863,877
Security of persons and property	22,437,189	-	-	442,555	22,879,744
Physical environment	325,398	-	2,176,592	4,042,055	6,544,045
Transportation	-	14,101,414	-	24,628	14,126,042
Economic environment	1,182,986	-	-	139,632	1,322,618
Mental and physical health	9,194,004	-	-	-	9,194,004
Culture and recreation	3,230,110	-	-	132,972	3,363,082
Capital outlay	228,639	6,793,984	301,571	476,401	7,800,595
Debt service:					
Principal	-	-	-	1,873,976	1,873,976
Interest	-	-	-	925,316	925,316
Total expenditures	52,505,900	21,030,309	2,478,163	8,878,927	84,893,299
Excess (deficiency) of revenues over expenditures	1,646,478	(1,001,647)	2,221,924	(833,280)	2,033,475
Other financing sources (uses)					
Sales of capital assets	565,134	737,019	-	47,334	1,349,487
Transfers in	1,558,222	60,051	-	5,499,502	7,117,775
Transfers out	(3,416,886)	(457,401)	(3,329,338)	(2,030,595)	(9,234,220)
Total other financing sources (uses)	(1,293,530)	339,669	(3,329,338)	3,516,241	(766,958)
Excess (deficiency) of revenues & other financing sources over expenditures & other uses	352,948	(661,978)	(1,107,414)	2,682,961	1,266,517
Fund balance as of January 1	16,142,488	11,275,771	10,254,301	12,876,077	50,548,637
Fund balance as of December 31	\$ 16,495,436	\$ 10,613,793	\$ 9,146,887	\$ 15,559,038	\$ 51,815,154

Notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Activities
Year Ended December 31, 2002



Net change in fund balances-total governmental funds	\$ 1,266,517
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$(7,800,595) exceeded depreciation \$(6,112,914) in the current period.	1,687,681
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.	3,165,847
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,203,388
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(68,253)
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<u>1,873,976</u>
Change in net assets of governmental activities	<u><u>\$ 9,129,156</u></u>

Notes to the financial statements are an integral part of this statement.

	Enterprise Funds	
	Whatcom County Investment Pool	Internal Service Funds
Assets		
Current Assets		
Cash & Equivalents	\$ 11,936	\$ 15,282,744
Investments At Cost	-	1,406,760
Accounts Receivable	-	83,711
Interest Receivable	-	4,241
Due From Other Funds	-	71,794
Employee Advances	-	3,226
Due From Other Governments	-	1,246
Inventory	-	1,239,710
Prepayments	-	7
Total Current Assets	11,936	18,093,439
Noncurrent Assets		
Land	-	755,331
Building & Structures (Net)	-	1,371,318
Capital Leases (Net)	-	318,362
Other Improvements (Net)	-	318,383
Machinery & Equipment (Net)	-	5,491,739
Total Noncurrent Assets	-	8,255,133
Total Assets	11,936	26,348,572
Liabilities		
Current Liabilities		
Accounts Payable	55	969,963
Claims Cost Payable	-	2,655,311
Due to Other Funds	-	21,329
Due to Other Governments	85	6,167
Total Current Liabilities	140	3,652,770
Noncurrent Liabilities		
Employee Leave Benefits	11,796	393,616
Other Long-Term Liabilities	-	318,026
Total Noncurrent Liabilities	11,796	711,642
Total Liabilities	11,936	4,364,412
Net Assets		
Invested in capital assets, net of related debt	-	8,255,133
Unrestricted	-	13,729,027
Total Net Assets		\$ 21,984,160
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.		
		2,088
Net assets of business-type activities	\$	2,088

Notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Proprietary Funds

Year Ended December 31, 2002



	Enterprise Funds Whatcom County Investment Pool	Internal Service Funds
Operating Revenue		
Charges for Service	\$ -	\$ 8,784,071
Rents and Parking	-	4,619,885
Interest Income	188,851	-
Insurance Premiums	-	5,180,403
Other Miscellaneous Revenues	-	84,000
Total Operating Revenues	188,851	18,668,359
General Operations	188,851	15,632,646
General Administration	-	485,279
Depreciation	-	1,557,745
Total Operating Expenses	188,851	17,675,670
Operating Income (Loss)	-	992,689
Non-Operating Revenues (Expenses)		
Gain (Loss) on Sale of Capital Assets	-	15,107
Interest Revenue	-	52,076
Interest Expense	-	(11,633)
Total Non-Operating Revenues (Expenses)	-	55,550
Income (loss) Before Contributions and Transfers	-	1,048,239
Capital Contributions	-	3,251
Transfers In	-	2,528,478
Transfers Out	-	(412,033)
Changes in net assets	-	3,167,935
Total net assets-beginning	-	18,816,225
Total net assets-ending	-	\$ 21,984,160
statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.	2,088	
Change in net assets of business-type activities	\$ 2,088	

Notes to the financial statements are an integral part of this statement.

	Enterprise Funds	
	Whatcom County Investment Pool	Funds
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 189,103	\$ 20,442,517
Cash Payments For Goods And Services	(71,218)	(13,055,380)
Cash Payments To Employees	(117,102)	(4,004,009)
Net Cash Provided by Operating Activities	783	3,383,128
Cash Flows From Non-Capital Financing Activities:		
Transfers In	-	2,464,829
Transfers Out	-	(412,033)
Interest Received on Rentals	-	1,003
Net Cash Provided by Non-Capital Financing Activities:	-	2,053,799
Cash Flows From Capital Financing Activities:		
Interest Paid on Lease Purchase	-	(11,633)
Contributions From Other Funds	-	3,251
Proceeds From Sale of Assets	-	146,521
Transfer In (Out)	-	63,648
Payments For Capital Assets	-	(1,856,547)
Net Cash Used by Capital Financing Activities:	-	(1,654,760)
Cash Flows From Investing Activities:		
Purchase of Investment Securities	-	(50,979)
Interest on Investments	-	50,979
Total Cash Flows From Investing Activities	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	783	3,782,167
Balances - Beginning of the Year	11,153	11,500,577
Balances - End of the Year	\$ 11,936	\$ 15,282,744
Reconciliation Of Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:		
Operating Income (Loss)	\$ -	\$ 992,689
Adjustments To Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	-	1,557,745
Change in Assets and Liabilities:		
Receivables, net	252	1,774,158
Inventories	-	(562,989)
Accounts and Other Payables	(1,378)	(409,299)
Accrued Expenses	1,909	30,824
Net Cash Provided By Operating Activities	\$ 783	\$ 3,383,128
Noncash Investing & Capital Financing Activities:		
Lease Purchases	-	(122,584)
Total Noncash Investing & Capital Financing Activities:	\$ -	\$ (122,584)

Notes to the financial statements are an integral part of this statement.

Agency Funds

Assets

Current Assets

Cash & Equivalents	\$ 18,225,239
Deposits With Fiscal Agent	14,437,519
Investments At Cost	87,539,463
Accounts Receivable (Net)	1,905

Total Assets	\$ 120,204,126
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Liabilities

Current Liabilities

Warrants Payable	\$ 8,577,356
Accounts Payable	1,729,103
Matured Long-Term Debt	10,121,180
Matured Interest Payable	4,316,339
Other Accrued Liabilities	64,373
Revenue Collected in Advance	257,264
Custodial Accounts	95,138,511

Total Liabilities	\$ 120,204,126
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Notes to the financial statements are an integral part of this statement.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Whatcom County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Whatcom County was incorporated on March 3, 1854 and operates under the laws of the State of Washington applicable to a home-rule charter county with a full-time, nonpartisan, elected County Executive and a seven member, part-time, County Council.

Whatcom County is a general purpose government providing public safety, fire inspection, road improvement, parks and recreation, judicial administration, health, social, and general administrative services. In addition, the county owns and operates a ferry as an extension of the county road system.

As required by the generally accepted accounting principles the financial statements present Whatcom County – the primary government. There are no component units included in these statements.

B. Financial Statement Presentation, Measurement Focus, Basis of Accounting

In June 1999, Government Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis for state and local governments and in June 2001, GASB issued Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Statement No. 38, Certain Financial Statement Note Disclosures. These statements establish new requirements for annual financial reports for state and local governments. The County has implemented these statements for the year ended December 31, 2002.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The County Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type activities for the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Fiduciary activities of the County are not included in these statements.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the County’s assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The statement of activities presents changes in net assets and demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly

identifiable with a specific function. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Under the accrual basis of accounting, revenues are recognized in the period which they are earned while expenses are recognized in the period in which the liability is incurred.

Eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated, however, those transactions between governmental and business-type activities have not been eliminated.

When both restricted and unrestricted resources are available for use, it is the County's policy to use unrestricted resources first, then restricted resources as needed.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements.

The County reports the following major governmental funds:

General Fund: This fund is the general operating fund of the county. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

County Road Fund: This fund finances the design, construction and maintenance of county roads.

Flood Control Zone District Fund: This fund finances the maintenance and operations of flood control projects.

Governmental fund financial statements are reported using the current resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. The County considers revenues to be available if they are collected within ninety days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, capital assets are reported as expenditures when purchased and debt service and compensated absences are recorded as expenditures when paid.

PROPRIETARY FUND FINANCIAL STATEMENTS

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide financial statements.

The County reports the following non-major proprietary funds:

Enterprise Funds: These funds are used to report any activity for which a fee is charged to external users for goods or services. The Whatcom County Investment Pool is the County's only enterprise fund.

Internal Service Funds: These funds account for operations that provide goods or services to other departments or funds of the County on a cost reimbursement basis.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The County has elected not to apply to its proprietary activities FASB Statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

FIDUCIARY FUND FINANCIAL STATEMENTS

Fiduciary Fund Financial Statements include a Statement of Net Assets. The County's Fiduciary funds represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds explained above.

C. Budgetary Information

Scope of Budget: Annual appropriated budgets are adopted for the general, special revenue, debt service, capital projects, and all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles.

Annual appropriated budgets are adopted at the level of the fund, except in the general fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

Appropriations for all funds lapse at year-end. Expenditure authority for projects extending beyond one year is granted through a continuing appropriation procedure.

Amending the Budget: The County Executive is authorized to approve transfers between accounts. However, any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions must be approved by the County Council.

When the County Council determines that it is in the best interest of the county to increase or decrease the appropriations for a particular fund or department, it may do so by ordinance approved by a simple majority.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by legally authorized supplemental appropriations.

D. Assets, Liabilities and Equities

Cash and Equivalents: The County follows the practice of pooling cash and investments of all funds held by the County Treasurer, except when otherwise requested, in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. Balances in cash and pooled investments are available on a demand basis to each fund. Earnings on cash and cash equivalents accrue to the county's general fund. The total cash, cash equivalent and investment pool at December 31 was \$175 million with \$76 million invested in instruments maturing one year or less.

Temporary Investments: See Note 3.

Receivables: Taxes receivable consist of property taxes due as of December 31 (See Note 4). Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments. (See Note 8).

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

Notes receivables primarily consist of amounts due from private individuals for home improvement loans granted through the Federal Community Development Block Grant Program. Repayment of these loans is due upon sale or exchange of the improved property. These loans are secured by a lien on the benefited properties and all are considered ultimately collectible.

Amounts Due to and from Other Governmental Units: These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services, which are expected to be received within 90 days. Amounts due to other governmental units also reflect the liability for net monetary assets being held by the county in its trustee or agency capacity.

Amounts Due to and from Other Funds; Interfund Loans: Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as “interfund loans receivable/ payable.” All other outstanding balances between funds are reported as “due to/ from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Inventories: Inventories are stated at cost. Inventories in proprietary funds are valued at First In First Out inventory basis.

Capital Assets and Depreciation - See Note 5. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets purchased or acquired are valued at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Table FN1 Capital Assets & Depreciation

<u>Capital Asset</u>	<u>Useful Life</u>	<u>Capitalization Threshold</u>
Buildings	50 years	\$1,000
Capital Leases	3-30 years	\$1,000
Improvements	5-30 years	\$1,000
Machinery & Equipment	3-10 years	\$1,000
Infrastructure	20-50 years	\$50,000

Custodial Accounts: This account reflects the liability for net monetary assets being held by the county in its trustee or agency capacity.

Compensated Absences: The county records all accumulated unused vacation and sick leave. Vacation pay, which may be accumulated up to 30 days, is payable upon resignation, retirement or death. Sick leave may accumulate up to 120 days. Employees hired before May 15, 1984 with three years of service can receive a cash payout of 50% of their accrued sick leave balance. An employee hired after that date with three years of service can receive 25% of their accrued sick leave. The amount reported for the employee leave benefit accrual includes 100% of the vacation leave accrual as of December 31, 2002 and 2001. Sick leave accruals are recorded at 50% if hired prior to May 15, 1984 or 25% sick leave accrual if hired after.

All vacation and sick pay is accrued when incurred in the governmental-wide and proprietary fund financial statements.

Deferred Revenues: This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. (See Note 1B).

Long-Term Debt - See Note 8.

Fund Reserves: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally committed for specific future uses such as continuing appropriations and where assets are not available for appropriation because they have been advanced to another fund, used to establish revolving funds, or because they are non-current receivables.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions in any of the funds of the county. Expenditures exceeded legal appropriations in the Tax Refund Fund by \$358,982. However, per RCW 84.68.030, the county is required to pay the amount of any final judgment where it was determined that tax was unlawfully collected.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits and investments are governed by state statute. Authorized investments include U.S. Treasury and Agency Securities, Repurchase Agreements and Reverse Repurchase Agreements for securities otherwise authorized as an investment, Municipal Bonds of Washington State and qualifying local bonds of Washington State, qualifying general obligation bonds of a state or local government outside the state of Washington, non-negotiable certificates of deposit of financial institutions which are qualified public depositories per RCW 39.58.010, bankers' acceptances, commercial paper, the State Local Government Investment Pool (LGIP), and deposits with qualified public depositories in the State of Washington.

Investments are categorized according to the level of risk associated with the investment, with Category 1 being the least risky and category 3 being the most risky. Category 1 investments are insured, registered or held by the County or its agent in the County's name. All investments held by the County's Treasurer are classified as Category 1 (See Table FN2).

The County's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits held at December 31, 2002 and throughout the year were classified as Category 1, insured or collateralized with securities held by the County or by its agent in the County's name.

The state LGIP is overseen by the Office of the State Treasurer. The fair value of the County's investments in the LGIP is the same as the value of the County's share in the pool.

GASB statement 31 requires adjustments be made to the financial statements to reflect the difference between amortized cost and fair value of investments. Fair value of investments has been determined using quoted market prices and is equivalent to market value. In 2002, the difference between amortized cost and fair value was not material. Therefore, no adjustments have been made. Investments are shown on the balance sheet at cost, net of amortized premium or discount. Gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

Table FN2 Deposits & Investments

	Category 1	Carrying Amount	Fair Value
Deposits:	\$28,583,257	\$28,583,257	\$28,583,257
Investments:			
U.S. Government Securities	6,000,000	5,996,463	6,141,900
U.S. Agency Securities	117,787,064	118,457,083	120,146,502
General Obligation Bonds	5,000,000	5,029,673	5,081,760
Total Investments	<u>\$128,787,064</u>	<u>\$129,483,219</u>	<u>\$131,370,162</u>
Investment in State LGIP	-	15,681,641	15,681,641
Accrued Interest Receivable	-	935,531	935,531
Total Deposits and Investments	<u>\$157,370,321</u>	<u>\$174,683,648</u>	<u>\$176,570,591</u>
Treasurer's Pooled Cash		<u>(85,705,564)</u>	<u>(85,705,564)</u>
Treasurer's Pooled Investments		<u>\$88,978,084</u>	<u>\$90,865,027</u>

NOTE 4 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar

- January 1 Taxes are levied and become an enforceable lien against properties.
- February 14 Tax bills are mailed.
- April 30 First of two equal installment payments is due.
- May 31 Assessed value of property established for next year's levy at 100 percent of market value.
- October 31 Second installment is due.

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized when cash is collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The tax collection record for Whatcom County was as follows:

Table FN3 Tax Collection Record

<u>Collection Year</u>	<u>Regular Assessed Valuation (1)</u>	<u>Ad Valorem Tax Levy (2)</u>	<u>Year of Levy Tax Collection (3)</u>
2003	\$12,616,676,560	\$18,328,750	(3)
2002	12,153,907,948	17,871,228	96.4%
2001	11,546,689,565	17,293,477	96.9
2000	10,954,893,516	16,707,418	97.5
1999	10,702,880,124	16,245,902	96.8
1998	10,444,100,325	15,834,091	97.2
1997	10,034,008,900	15,433,811	97.4

(1) Assessed valuation is based upon 100 percent of estimated actual valuation.

(2) Does not include conservation futures and county road district levies.

(3) In process of collection.

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

1. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to 106% of the previous year's levy, after adjustments for new construction.
2. Chapter 84.52 RCW establishes a limitation on the levies for ports, public utilities, state school, emergency medical services, counties, roads, and cities and towns. All other regular levies are reduced by a priority schedule if a composite rate of \$5.55 per thousand is exceeded.
3. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit, with the exception of port districts, public utility districts, and new state school construction.

The County's regular levy for 2002 was \$1.47041 per \$1,000 on an assessed valuation of \$12.2 billion for a regular levy of \$17,871,228. This levy was used for general governmental purposes.

The road fund levied \$2.13885 per \$1,000 on an assessed value of \$6.0 billion in 2002. This resulted in a total levy of \$12,773,785 to be used for county road maintenance and construction.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2002 was as follows:

Table FN4 Capital Assets Activity

Governmental activities	January 1	Increases	Decreases	December 31
Not being depreciated:				
Land	\$20,407,808	\$841,049	\$ -	\$21,248,857
Subtotal	20,407,808	841,049	-	21,248,857
Other capital assets:				
Buildings	53,547,997	15,022	-	53,563,019
Improvements	4,201,259	123,764	-	4,325,023
Equipment	23,184,474	2,109,592	1,105,812	24,188,254
Infrastructure	86,507,104	6,666,565	-	93,173,669
Subtotal	167,440,834	8,914,943	1,105,812	175,249,965
Accumulated depreciation				
Buildings	12,502,577	1,041,868	-	13,544,445
Improvements	3,240,567	155,212	-	3,395,779
Equipment	15,320,469	2,209,972	971,148	16,559,293
Infrastructure	22,447,540	4,263,607	-	26,711,147
Subtotal	53,511,153	7,670,659	971,148	60,210,664
Net other capital assets	113,929,681	1,244,284	134,664	115,039,301
Net capital assets	\$134,337,489	\$2,085,333	134,664	\$136,288,158

Depreciation expense was charged to functions/programs of the primary government as follows:

Table FN5 Depreciation Expense

Governmental activities:

General governments	\$1,602,772
Security of persons & property	298,134
Physical environment	39,859
Transportation	5,531,882
Economic environment	2,201
Mental & physical health	50,840
Culture & recreation	144,971
Total depreciation expense	<u>\$7,670,659</u>

NOTE 6 - PENSION PLANS

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

Public Employees' Retirement System (PERS) Plans 1 and 2

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials, state employees, employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member 2 contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,155 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	62,189
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	18,412
Active Plan Members Vested	97,777
Active Plan Members Nonvested	55,159
TOTAL	233,537

The County covered payroll for the year ended December 31, 2002 was \$30,311,326. The County's total current year payroll for all employees was \$34,726,550.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employers who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2002, were as follows:

Table FN7 PERS Contribution Rates

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.32%	1.32%	1.32%**
Employee	6.00%	0.65%	***

*The employer rates include the employer administrative expense fee currently set at 0.22%.

**Plan 3 defined benefit portion only.

***Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both Whatcom County and the employees made the required contributions. The County's required contributions for the years ending December 31 were as follows:

Table FN8 County Contribution to PERS

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2002	\$ 64,382	\$ 367,845	\$ 1,983
2001	\$ 71,160	\$ 378,271	N/A
2000	\$ 229,194	\$ 972,930	N/A

Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and fire fighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Table FN9 LEOFF Plan 1 Benefit Calculation

Term of Service	Percent of Final Average
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months’ salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 359 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2001:

Table FN10 LEOFF Membership

Retirees and Beneficiaries Receiving Benefits	8,078
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	332
Active Plan Members Vested	10,894
Active Plan Members Nonvested	4,006
TOTAL	23,310

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The County's covered payroll for the year ended December 31, 2002 was \$4,415,224. The County's total current year payroll for all employees was \$34,726,550.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2002, were:

Table FN11 LEOFF Contribution Rates

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.22%	2.86%
Employee	0.00%	4.39%
State	N/A	1.75%

*The employer rates include the employer administrative expense fee currently set at 0.22%.

Both Whatcom County and the employees made the required contributions. The County's required contributions for the years ending December 31 were as follows:

Table FN12 County Contribution to LEOFF

	LEOFF Plan 1	LEOFF Plan 2
2002	\$ 685	\$118,225
2001	\$ 857	\$108,979
2000	\$16,227	\$116,546

NOTE 7 - RISK MANAGEMENT

The County maintains insurance against most normal hazards except for unemployment insurance, workers' compensation, medical insurance, and dental insurance where it has elected to become self-insured. Claims for these risks are processed by independent claims managers. Interfund premiums are assessed on the basis of claims experience and are reported as revenues in the Administrative Services Fund (an internal service fund) and expenses or expenditures in the paying fund. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At December 31, 2002, the amount of these liabilities was \$2,655,310. Changes in the balances of claims liabilities during 2001 and 2002 were as follows:

Table FN13 Claims Liability Balance Changes

	Beginning of Year Claims Liability	Claims Paid During the Year	Estimated Additional Liability Incurred	Balance at Year End
2001	\$2,840,177	(3,274,592)	3,356,270	\$2,921,855
2002	\$2,921,855	(2,777,911)	2,511,366	\$2,655,310

Whatcom County is a member of the Washington Counties Risk Pool (pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on August 18, 1988 when counties in the state of Washington joined together by signing an interlocal agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Twenty-five counties have joined the pool.

The pool allows members to establish a plan of self-insurance, jointly purchase excess or reinsurance and provide related services. All pool joint self-insurance liability coverages, including public officials' errors and omissions, are on an "occurrence" basis.

Members make an annual contribution to fund the pool. The pool acquires reinsurance from unrelated underwriters that are subject to a pool per-occurrence self-insured retention of \$100,000. Members may elect deductible amounts ranging from \$10,000 per occurrence to \$250,000. Whatcom County currently has a \$100,000 per occurrence deductible. Members are responsible for the first deductible amounts of each claim, while the pool is responsible for the remaining difference up to the pool's \$100,000 self-insured retention. Reinsurance carriers cover all losses over \$100,000 to the maximum limits of each policy.

Since the pool is a cooperative program, there is joint liability among the participating members. A retroactive assessment was approved in 1999 for \$6.5 million with payments starting in 1999 and spread over ten years. The county's proportional share of the assessment is approximately 5.0%.

Members contract to remain in the pool for a minimum of five years, and must give notice one year before terminating participation. The interlocal agreement is renewed automatically each year until terminated. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period that it was a signatory to the interlocal agreement.

The pool is fully funded by its member participants. Claims are filed by members with the pool.

The pool is governed by a board of directors that is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting, and is responsible for conducting the business affairs of the pool.

In the past three years, Whatcom County has not had any claims that exceeded risk pool coverage. Whatcom County's membership in the pool comprises a 5% interest (approximately) in pool assets and liabilities. Summarized financial information as of September 30, 2002 is presented below.

Table FN14 Washington Counties Risk Pool

Washington Counties Risk Pool As of September 30, 2002	
Total Assets	\$19,348,577
Total Liabilities	<u>\$20,074,255</u>
Total Retained Earnings	(\$725,678)
Total Revenues	\$7,055,507
Total Expenses	\$9,397,190
Total Revenues Over Expenses	<u>(\$2,341,683)</u>

NOTE 8 - LONG-TERM DEBT AND CAPITAL LEASES

General Obligation Bonds

In 1993, the County issued \$8,400,000 in general obligation bonds for financing of an addition to the Whatcom County courthouse. Interest rates on these bonds are fixed at 5.75-6.00% (depending on the maturity dates). This debt issue matures in full in 2012. As of December 31, 2002, outstanding bonds totaled \$4,265,000. Repayment will be made from General Fund revenues.

The county issued general obligation bonds in the amount of \$9,990,000 in 1997 to refinance 1991 issue of bonds for the remodeling of the County courthouse and to pay off interfund loans for the remodeling of the County courthouse. Interest on these bond issues are fixed at 4.0-5.5% (depending on maturity date) with final maturity in 2012. These bonds will be repaid from General Fund revenues. As of December 31, 2002, bonds outstanding total \$8,685,000.

In 1998, the county issued \$3,360,000 in general obligation bonds to pay off an interfund loan for the purchase of the Civic Center Building. Interest rate on these bonds are fixed at 3.75-4.7% (depending on maturity date) with final maturity in 2018. Repayment will be made from general fund revenues. As of December 31, 2002, outstanding bonds totaled \$2,880,000.

Special Assessment Debt for Road Improvements

Debt service requirements for special assessment bonds will be met by the collection of assessments receivable that have been levied against property owners. The assessments are liens against the property and subject to foreclosure. Whatcom County has established a RID Guaranty Fund to set aside a reserve to meet debt service requirements on RID debt in the event that assessment collections are insufficient. This reserve is funded by an assessment against RID funds as they are established. At December 31, 2002, a reserve of \$113,735 was available in the RID Guaranty Fund.

RID 9 debt represents loans from Washington Community Economic Revitalization Board (CERB) for road, water and sewer improvements to an area within Whatcom County known as Cordata Business Park. In November 1987, the County formed Road Improvement District #9 and levied assessments to service these loans. The special assessment debt balance is payable from assessments receivable until maturity in the year 2006. At December 31, the outstanding loan balance was \$422,150.

RID 10 was created in 1989 to fund improvements to Horton Road which is located in the Cordata development. RID anticipation notes were issued 1991 in the amount of \$1,043,674 (interest rate 5.5-7.6%) to fund the construction of this project. This debt is secured by assessments on the properties benefited. These RID anticipation notes were paid off in 2002.

Governmental activities annual debt service requirements to maturity for general obligation bonds and special assessment debt are as follows:

Table FN15 GO Bonds and Special Assessment Debt

Year Ending December 31	General Obligation Bonds		Special Assessment Debt	
	Principal	Interest	Principal	Interest
2003	\$1,200,000	\$798,493	\$118,580	\$28,706
2004	1,275,000	735,342	126,643	20,643
2005	1,330,000	668,135	135,255	12,031
2006	1,410,000	596,876	41,672	2,833
2007	1,485,000	520,843	-	-
2008 - 2012	7,815,000	1,353,116	-	-
2013 - 2017	1,070,000	209,485	-	-
2018 - 2022	245,000	11,515	-	-
Total	<u>\$15,830,000</u>	<u>\$4,893,805</u>	<u>\$422,150</u>	<u>\$64,213</u>

In proprietary funds, unamortized debt issue costs and bond discounts are recorded as deferred charges. Annual interest expense is increased by amortization of debt costs and discounts.

At December 31, 2002, the County had \$68,721 available in debt service funds to service the general bonded debt. In addition, \$176,505 was available to service RID debt.

Changes In Long-Term Debt

During the year ended December 31, 2002, the following changes occurred in long-term liabilities:

Table FN16 Changes in Long-Term Debt

Governmental Activities	January 1	Additions	Reductions	December 31	Due Within One Year
Bonds payable					
General obligation debt	\$ 16,975,000	\$ -	\$ 1,145,000	\$ 15,830,000	\$ 1,200,000
Special assessment debt	802,600	-	380,450	422,150	118,580
Less deferred amounts for issuance discounts/premiums	206,031	-	27,770	178,261	-
Total bonds payable	17,983,631	-	1,553,220	16,430,411	1,318,580
Capital leases	302,178	209,800	177,043	334,935	112,034
Estimated claims (See Note 7)	2,921,855	2,511,366	2,777,911	2,655,310	-
Compensated absences	3,817,884	126,847	-	3,944,731	-
Landfill post-closure costs	250,000	-	-	250,000	-
Total	\$ 25,275,548	\$ 2,848,013	\$ 4,508,174	\$ 23,615,387	\$ 1,430,614

The compensated absence liability is based upon accrued hours at year-end. The change reported above is shown net.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$393,616 of internal service funds compensated absences are included in the above amounts.

Capital Leases

In 1997, Whatcom County entered into a lease agreement for copiers that qualifies as a capital lease for accounting purposes. The leased copiers and related obligations are accounted for in the Proprietary Fund, Administrative Services. As of December 31, 2002, outstanding lease payments totaled \$318,027.

The county entered into two lease purchase agreements for upgrades to their central computer system in 1998. The first obligation of \$71,701 matures in 2003 and has an interest rate of 5.64%. As of December 31, 2002, the balance was \$4,025. The second obligation of \$228,513 matures in 2003 and carries an interest rate of 5.64%. The balance outstanding at December 31, 2002 was \$12,884.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2002 were as follows:

Table FN17 Future Minimum Lease Obligations

Year Ending December 31	Governmental Activities
2003	\$123,587
2004	95,736
2005	72,816
2006	53,311
2007	25,714
2008 and Beyond	-
Total Minimum Lease Payments	371,164
Less: Interest	36,228
Present Value of Minimum Lease	<u>\$334,936</u>

Debt Limitations:

The amount of long-term debt that can be incurred by a county is limited by state statute. The table below presents the remaining unused long-term debt capacity available to the county based upon the limits set by statute.

Table FN18 Long-Term Debt Capacity

<u>Purpose of Indebtedness</u>	<u>Remaining Capacity</u>
General Government (No vote required)	\$ 167,454,467
General Government (With 3/5 majority vote)	\$ 315,416,914

NOTE 9 – CONTINGENCIES

Whatcom County has claims and lawsuits pending at this time. All these claims and lawsuits were forwarded to the Washington Counties Risk Pool (see Note 7) and will not have a material adverse effect on the financial condition of the County.

The County participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representative. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. County management believes that such disallowances, if any, will be immaterial.

NOTE 10 - COMMITMENTS

The City of Bellingham provides county wide emergency medical care and transportation services. In the event that the user fees and donations received by the city to provide these services is insufficient to pay for all the operation, maintenance and capital expenditures attributed to this service, the city and the county have agreed to split the deficit equally.

NOTE 11 - INTERFUND BALANCES AND TRANSFERS

Interfund Balances

Interfund receivables and payables are transactions that would be treated as revenues, expenditures or expense if the involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the county. Interfund balances at December 31, 2002, were as follows:

Table FN19 Interfund Balances

Due To	Due From					Total
	General Fund	County Road	Flood Control Zone Dist.	Internal Service	All Others	
County Road	\$ -	\$ -	\$ -	\$ 21,329	\$ 1,052	\$ 22,381
Flood Control Zone Dist.	-	-	-	-	11,542	11,542
Internal Service	45,420	22,910	3,240	-	224	71,794
Total	\$45,420	\$22,910	\$3,240	\$21,329	\$12,818	\$105,717

Interfund Transfers

Transfers provide funding for capital projects, debt service, reallocations of special revenues, and to support the operations of other funds. Interfund transfers for the year ended December 31, 2002, consisted of the following:

Table FN20 Interfund Transfers

Transfer To	Transfers From					Total
	General Fund	County Road	Flood Control Zone Dist.	Internal Service	All Others	
General Fund	\$52,877	\$170,593	\$320,496	\$118,840	\$895,416	\$1,558,222
County Road	59,000	-	-	-	1,052	60,052
Internal Service	2,136,235	286,808	35,145	40,033	30,257	2,528,478
All Others	1,168,774	-	2,973,697	253,160	1,103,871	5,499,502
Total	\$3,416,886	\$457,401	\$3,329,338	\$412,033	\$2,030,596	\$9,646,254

NOTE 12 - JOINT VENTURES

Whatcom County participates with the City of Bellingham and other local governmental jurisdictions to provide a law enforcement, fire and emergency medical communications dispatching service (What-Comm Communications Center). The governing board of What-Comm consists of three members from the county, three from the city, one representing county fire districts and one elected official to be selected by the other members. The board is responsible for establishing the budget for What-Comm and for establishing the annual financial contributions to be made by the member jurisdictions. Whatcom County and the City of Bellingham share the expenditures equally. Whatcom County contributed \$607,502 as its share of operations in 2002. Whatcom County did not have an equity interest in What-Comm in 2002. Financial statements for What-Comm Communications Center can be obtained from the City of Bellingham, 210 Lottie Street, Bellingham, Washington 98225.

NOTE 13 – POSTRETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 6, Whatcom County provides postretirement health care benefits, in accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement Systems (LEOFF) Act (RCW 41.26), to employees who were law enforcement officers and established membership in the LEOFF I retirement system on or before September 30, 1977. Currently, 19 retirees meet those eligibility requirements.

Whatcom County pays for health insurance and medical costs not covered by insurance for pre-Medicare retirees. The County also pays a fixed amount of \$104 to \$149 per month for a Medicare supplement for each retiree eligible for Medicare.

During the year, expenditures of \$116,146 were recognized for postretirement health care.

NOTE 14 – POSTCLOSURE CARE COST

Whatcom County owns four closed solid waste landfills. These are Birch-Bay Lynden, Y Road, and Pt. Roberts, which were closed in the 1980's and Cedarville, which was closed in 1992. Whatcom County is required by the Department of Ecology to perform postclosure monitoring of the landfills for a minimum of 30 years. The County complies with this requirement by monitoring ground water of all the landfills and disposal of leachate from the Cedarville landfill. In 2001, an addition of a sheet-pile cut-off wall at Cedarville reduced the quantity of leachate collected, reducing the treatment and disposal costs in half (an estimated reduction of \$37,000 per year). Other than the project at Cedarville, no further capital improvements are anticipated at this time. However, the actual cost of postclosure care may change due to inflation or deflation, technology, or applicable laws or regulations. A reserve of \$250,000 was established in the Solid Waste Fund in 1992 to cover postclosure care costs.

As of 1999, the Solid Waste Fund was reclassified from an enterprise fund to a special revenue fund.

NOTE 15 – OTHER DISCLOSURES

A. Fund Changes

During 2002, the following fund was added: Low-Income Housing Projects.



Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund

Year Ended December 31, 2002



	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues				
Taxes	\$ 27,996,630	\$ 27,996,630	\$ 28,171,111	\$ 174,481
Licenses and permits	1,542,632	1,594,632	1,709,737	115,105
Intergovernmental	12,815,908	13,661,221	13,214,714	(446,507)
Charges for service	5,147,303	5,508,107	5,870,902	362,795
Fines and forfeits	1,314,100	1,339,100	1,524,102	185,002
Miscellaneous	3,706,579	3,767,439	3,661,812	(105,627)
Total revenues	52,523,152	53,867,129	54,152,378	285,249
Expenditures				
Current:				
General government	16,864,691	16,974,415	15,907,574	1,066,841
Security of persons and property	22,092,293	22,793,146	22,437,189	355,957
Physical environment	329,487	329,487	325,398	4,089
Economic environment	1,124,409	1,362,341	1,182,986	179,355
Mental and physical health	9,520,840	9,842,359	9,194,004	648,355
Culture and recreation	3,310,907	3,388,469	3,230,110	158,359
Capital outlay	346,700	585,002	228,639	356,363
Total expenditures	53,589,327	55,275,219	52,505,900	2,769,319
Excess (deficiency) of revenues over expenditures	(1,066,175)	(1,408,090)	1,646,478	3,054,568
Other financing sources (uses)				
Sales of capital assets	511,000	511,000	565,134	54,134
Transfers in	1,279,954	1,366,982	1,558,222	191,240
Transfers out	(3,316,114)	(3,623,572)	(3,416,886)	206,686
Total other financing sources (uses)	(1,525,160)	(1,745,590)	(1,293,530)	452,060
Excess (deficiency) of revenues & other financing sources over expenditures & other uses	(2,591,335)	(3,153,680)	352,948	3,506,628
Fund balance as of January 1	-	562,345	16,142,488	15,580,143
Fund balance as of December 31	\$ (2,591,335)	\$ (2,591,335)	\$ 16,495,436	\$ 19,086,771

Notes to the financial statements are an integral part of this statement.

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
County Road

Year Ended December 31, 2002



	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues				
Taxes	\$ 12,292,000	\$ 12,292,000	\$ 12,108,773	\$ (183,227)
Licenses and permits	40,100	40,100	50,271	10,171
Intergovernmental	7,621,792	7,621,792	6,600,775	(1,021,017)
Charges for service	1,197,309	1,197,309	1,256,299	58,990
Miscellaneous	62,500	62,500	12,544	(49,956)
Total revenues	21,213,701	21,213,701	20,028,662	(1,185,039)
Expenditures				
Current:				
General government	-	-	134,911	(134,911)
Transportation	14,924,484	14,983,327	14,101,414	881,913
Capital outlay	9,626,000	10,324,767	6,793,984	3,530,783
Total expenditures	24,550,484	25,308,094	21,030,309	4,277,785
Excess (deficiency) of revenues over expenditures	(3,336,783)	(4,094,393)	(1,001,647)	3,092,746
Other financing sources (uses)				
Sales of capital assets	900,000	900,000	737,019	(162,981)
Transfers in	110,054	110,054	60,051	(50,003)
Transfers out	(445,102)	(445,102)	(457,401)	(12,299)
Total other financing sources (uses)	564,952	564,952	339,669	(225,283)
Excess (deficiency) of revenues & other financing sources over expenditures & other uses	(2,771,831)	(3,529,441)	(661,978)	2,867,463
Fund balance as of January 1	10,600,000	11,357,611	11,275,771	(81,840)
Fund balance as of December 31	\$ 7,828,169	\$ 7,828,170	\$ 10,613,793	\$ 2,785,623

Notes to the financial statements are an integral part of this statement.

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
Flood Control Zone District
Year Ended December 31, 2002



	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,676,375	\$ 3,676,375	\$ 3,985,394	\$ 309,019
Intergovernmental	1,328,350	1,328,350	350,657	(977,693)
Charges for service	137,500	137,500	58,835	(78,665)
Miscellaneous	460,000	460,000	305,201	(154,799)
Total revenues	5,602,225	5,602,225	4,700,087	(902,138)
Expenditures				
Current:				
Physical environment	3,645,810	4,287,927	2,176,592	2,111,335
Capital outlay	800,000	800,000	301,571	498,429
Total expenditures	4,445,810	5,087,927	2,478,163	2,609,764
Excess (deficiency) of revenues over expenditures	1,156,415	514,298	2,221,924	1,707,626
Other financing sources (uses)				
Operating transfer out	(1,873,333)	(2,854,333)	(3,329,338)	(475,005)
Total other financing sources (uses)	(1,873,333)	(2,854,333)	(3,329,338)	(475,005)
Excess (deficiency) of revenues & other financing sources over expenditures & other uses	(716,918)	(2,340,035)	(1,107,414)	1,232,621
Fund balance as of January 1	9,361,773	10,984,890	10,254,301	(730,589)
Fund balance as of December 31	\$ 8,644,855	\$ 8,644,855	\$ 9,146,887	\$ 502,032

Notes to the financial statements are an integral part of this statement.

