

Washington State Auditor's Office
Report on Financial Statements and Federal Single Audit

**Whatcom County Council of
Governments**

Audit Period
January 1, 2002 through December 31, 2002

Report No. 65392

Issue Date
September 12, 2003



Washington
State Auditor
Brian Sonntag



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September 12, 2003

Board of Directors
Whatcom County Council of Governments
Bellingham, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Whatcom County Council of Governments's financial statements and compliance with federal laws and regulations.

We are issuing this report now in order to provide information on the Council's financial condition.

In addition to this work, we look at other areas of our audit clients' operations for compliance with state laws and regulations. The results of that review will be included in our regular audit report, which will be issued separately.

Sincerely,

BRIAN SONNTAG,CGFM

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Federal Summary

Whatcom County Council of Governments January 1, 2002 through December 31, 2002

The results of our audit of the Whatcom County Council of Governments are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- We issued an unqualified opinion on the Council's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the Council.
- We issued an unqualified opinion on the Council's compliance with requirements applicable to its major federal program.
- We reported no findings, which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The Council qualified as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

**Whatcom County Council of Governments
January 1, 2002 through December 31, 2002**

Board of Directors
Whatcom County Council of Governments
Bellingham, Washington

We have audited the financial statements of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the year ended December 31, 2002, and have issued our report thereon dated August 8, 2003. We conducted our audit in accordance with governmental auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of the Council's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our responsibility is to examine, on a test basis, evidence about the Council's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the Council and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under Government Auditing Standards.

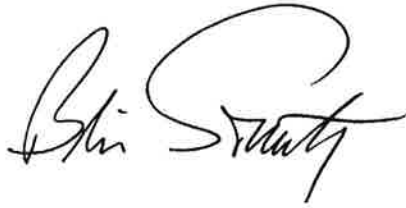
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is

not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 8, 2003

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**Whatcom County Council of Governments
January 1, 2002 through December 31, 2002**

Board of Directors
Whatcom County Council of Governments
Bellingham, Washington

COMPLIANCE

We have audited the compliance of the Whatcom County Council of Governments, Whatcom County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The Council's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

We conducted our audit of compliance in accordance with governmental auditing standards in the United States of America, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council's compliance with those requirements.

In our opinion, the Council complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

However, we noted certain matters involving immaterial noncompliance that we have reported to the management of the Council in a separate letter dated August 26, 2003.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Council is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

August 8, 2003

Independent Auditors Report on Financial Statements

Whatcom County Council of Governments January 1, 2002 through December 31, 2002

Board of Directors
Whatcom County Council of Governments
Bellingham, Washington

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

We conducted our audit in accordance with governmental auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

As described in Note 1B to the financial statements, the Council prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the Whatcom County Council of Governments, for the year ended December 31, 2002, on the basis of accounting described in Note 1B.

In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the Council'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.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of State Financial Assistance is also presented for purposes of additional analysis. These schedules are not a

required part of the financial statements. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large, prominent loop at the beginning of the first name.

BRIAN SONNTAG, CGFM
STATE AUDITOR

August 8, 2003

Financial Statements

**Whatcom County Council of Governments
January 1, 2002 through December 31, 2002**

FINANCIAL STATEMENTS

Schedule of Cash Activity – 2002
Schedule of Investments – 2002
Notes to Financial Statements – 2002

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2002
Schedule of State Financial Assistance – 2002
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance – 2002

Whatcom Council of Governments
Schedule of Cash Activity
For the Year Ended December 31, 2002

Description	Beginning Balance 1/1/02	Receipts	Investment Sales	Transfers Into Cash	Total Available	Investments Purchased	Transfers Out Claims/Payr	Other Transfers Out	Disbursements	Total Used	Ending Balance 12/31/02
COG	\$ 292	\$ 1,599,599	\$ 1,275,652	\$ 1,129,697	\$ 4,005,240	\$ (1,331,815)	\$(1,476,952)	\$ (1,124,728)	\$ (65,405)	\$ (3,998,900)	\$ 6,339

**Whatcom County Council of Governments
 Schedule of Investments
 For the Year Ending December 31, 2002**

Description	Beginning Balance 1/01/02	Investments Acquired	Investments Liquidated	Ending Investments Balance 12/31/02
Council of Governments	\$ 56,851	\$ 1,331,815	\$ (1,275,652)	\$ 113,014

WHATCOM COUNCIL OF GOVERNMENTS
Notes To Financial Statements
January 1, 2002 Through December 31, 2002

The following notes are an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT POLICIES

The Whatcom Council Of Governments was incorporated on March 26, 1970 and operates under the laws of the state of Washington applicable to a regional planning commission. The following is a summary of the more significant policies, including identification of those policies which result in material departures from generally accepted accounting principles:

A. Reporting Entity

The council is a voluntary interlocal cooperative consisting of local governments in Whatcom County. At December 31, 2002, the council consisted of representatives of the following local governments:

- City of Bellingham
- City of Blaine
- City of Everson
- City of Ferndale
- City of Lynden
- City of Nooksack
- City of Sumas
- Whatcom County
- Port of Bellingham
- Birch Bay Water & Sewer District
- Whatcom Water District #10

Basis of Presentation - Fund Accounting

The accounts of the council are organized on the basis of funds, each of which is considered a separate accounting entity. The council uses only governmental funds as listed below. Each governmental fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures.

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the general operating fund of the council. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Accounting records for the council are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 RCW. The council uses the revenue and expenditure classifications contained in the Budgeting, Accounting and Reporting System (BARS) prescribed by the State Auditor.

In governmental and fiduciary funds, revenues are recognized only when received in cash and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law. This is a departure from generally accepted accounting principles which require revenue and expenditure recognition on the modified-accrual basis of accounting (GAAP). Purchases of fixed assets are expensed during the year acquired.

C. Duties of Whatcom County

As required by statute, Whatcom County serves as the council's treasurer, issues council warrants, invests available cash, and prepares cash receipt and disbursement reports of the council's financial activity.

E. Budgets

1. Scope of Budget

An annual appropriated budget is adopted for the council at the level of the fund. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. Annual appropriations lapse at year end.

2. Procedures for Adopting the Original Budget

The council's budget procedures are mandated by its By Laws, Section 10. The steps in the budget process are as follows:

- a. By October 1 of each year a budget estimate for the ensuing year is mailed to each representative.
- b. Each member entity reviews the budget estimate, making additional recommendations it deems appropriate.
- c. The council, at its regular November meeting considers the preliminary budget, makes such additional changes as may be required, and approves it.
- d. The approved preliminary budget is transmitted by the chairperson to the governing bodies of the member agencies.
- e. At the annual meeting held in December, the council reviews the preliminary budget, makes such additional changes as may be necessary, and adopts the final budget.
- f. Two copies of the approved budget are forwarded to the Whatcom County Auditor by January 15, and such other persons as the membership may direct.

3. Amending the Budget

The council may amend its budget, provided that copies of such changes shall be filed with the Whatcom County Auditor and, further provided that, at no time may the council's budget expenditures exceed funds reasonably expected to be available.

F. Assets and Liabilities

1. Investments

The council's investments are either insured, registered or held by Whatcom County or its agent in the council's name.

Investments by type at December 31, 2002 are as follows:

L.G.I.P. \$113,014

2. Fixed Assets

Fixed assets are expensed when purchased. The council has not established a fixed asset account group.

3. Long-term Debt

The council had no long-term debt during the audit period.

4. Compensated Absences

Vacation pay may be accumulated up to thirty days and is payable upon resignation, retirement, or death. The

liability for accumulated unused vacation has not been calculated and is not included in the financial statements.

G. Revenues and Expenditures

1. Governmental and fiduciary funds use the cash basis of accounting where revenues are recognized when received in cash and expenditures are recognized when paid, including those properly chargeable against the report year's budget appropriations as required by state law. This is a departure from generally accepted accounting principles (GAAP) which require revenue and expenditure recognition on the modified-accrual basis of accounting.
2. The accompanying Schedules of Financial Assistance provides a listing of all federal and state assistance programs in which the council participates and summarizes the council's grant transactions for 2002.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the Whatcom Council of Governments.

NOTE 3 - PENSION PLAN

Substantially all council full-time and qualifying part-time employees participate in the statewide Public Employee's Retirement System (PERS) administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the council's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend information showing each system's progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's *Comprehensive Annual Financial Report*. Please refer to said report for detailed information.

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NOTE 4 - SHORT-TERM DEBT

The council had no short-term debt during the audit period.

NOTE 5 - RISK MANAGEMENT, CONTINGENCIES AND LITIGATION

The council maintains insurance against most normal hazards. In the opinion of management, the council's insurance policies are adequate to pay all known or pending claims.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2002

Grantor/Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Current Year Expenditures
U.S. Department of Commerce Award through WA State Department of Ecology			
Beach Watch CZM	11.419	G0200082	\$ 10,694
Birch Bay CZM 2	11.419	G0200087	\$ 17,000
Total Award Department of Ecology			<u>\$ 27,694</u>
U.S. Department of Transportation Award through WA State DOT			
Federal Highway Administration			
Cascade Gateway	20.205	Demo-2001(024)	\$ 380,356
Chain of Trails	20.205	TCSP-TCSP(002)	\$ 24,692
Coast Millennium Trail	20.205	P-STPE-	\$ 57,785
IMTC Coordination of Binational Planning	20.205	CB-1999(011)	\$ 232,670
ITS & CVO Study - WSDOT TRAC	20.205	GCA-1170	\$ 4,247
Northern Border Projects	20.205	NCPD-CBI	\$ 61,289
North Sound Kiosks	20.205	STPE-2037(082)	\$ 9,078
North Sound Kiosks - CN	20.205	STPE-2037(082)	\$ 228
O&D Cross Border Study	20.205	CB-1999(010)	\$ 9,465
PACE Expedited Border Pre Clearance	20.205	CB-1999(012)	\$ 7,261
RTPO Unified Planning Work Program	20.205	STPR-2037(083)	\$ 68,541
SR542 Sites & Signs	20.205	SB-WA99(007)	\$ 5,229
SR542 Visitor Center	20.205	SB-WA99(016)	\$ 3,068
Sub Total 20.205			<u>\$ 863,909</u>
Federal Transit Administration			
MPO (Jan. - June)	20.505	GCA-2855	\$ 53,164
MPO (July - Dec.)	20.505	GCA-2855	\$ 38,253
Sub Total 20.505			<u>\$ 91,417</u>
Total WA State Dept. of Transportation			<u>\$ 955,326</u>
Total Federal Awards Expended			<u>\$ 983,020</u>

The Accompanying Notes To The Schedule Of State And Local Financial Assistance Are An Integral Part Of This Schedule.

WHATCOM COUNCIL OF GOVERNMENTS

Schedule 16

SCHEDULE OF STATE FINANCIAL ASSISTANCE
For The Year Ended December 31, 2002

Grantor/Pass-Through Grantor Program Title	Identification Number	Current Year Expenditures
Awards through WA State DOT		
IMTC Coordination of Binational Planning	CB-1999(011)	36,313
O&D Cross Border Study	CB-1999(010)	7,934
SR542 Visitor Center	SB-WA99(016)	767
Commute Trip Reduction	GCA-2907	83,399
Regional Governance Model	HLP-2001(040)	127,576
RTPO	GCA-2855	31,481
Total Awards WA State DOT		<u>287,470</u>
Total State Awards Expended		\$ 287,470

The Accompanying Notes To The Schedule Of State And Local Financial Assistance
Are An Integral Part Of This Schedule.

WHATCOM COUNCIL OF GOVERNMENTS
Notes To Schedule Of Expenditures Of Federal Awards
and State Financial Assistance
January 1, 2002 Through December 31, 2002

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Whatcom Council of Governments' financial statements. Accounting records for the council are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 RCW. The council uses the revenue and expenditure classifications contained in the Budgeting, Accounting and Reporting System (BARS) prescribed by the State Auditor.

In governmental and fiduciary funds, revenues are recognized only when received in cash and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law. This is a departure from generally accepted accounting principles which require revenue and expenditure recognition on the modified-accrual basis of accounting (GAAP). Purchases of fixed assets are expensed during the year acquired.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the council's portion may be more than shown.