

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

Whatcom Council of Governments
Whatcom County

Audit Period
January 1, 2002 through December 31, 2003

Report No. 67178

Issue Date
September 3, 2004



Washington
State Auditor
Brian Sonntag

Federal Summary

Whatcom Council of Governments Whatcom County January 1, 2003 through December 31, 2003

The results of our audit of the Whatcom 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.
- We noted in our Independent Auditor's Report on Financial Statements that the Schedule of Expenditures of Federal Awards was fairly presented.
- 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 Council of Governments
Whatcom County
January 1, 2002 through December 31, 2003**

Board of Directors
Whatcom Council of Governments
Bellingham, Washington

We have audited the financial statements of the Whatcom Council of Governments, Whatcom County, Washington, as of and for the year ended December 31, 2003, and have issued our report thereon dated July 8, 2004. 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 misstatements, 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. 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



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Brian Sonntag

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September 3, 2004

Board of Directors
Whatcom Council of Governments
Bellingham, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Whatcom Council of Governments' 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,

A handwritten signature in black ink that reads "Brian Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

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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

July 8, 2004

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 Council of Governments
Whatcom County
January 1, 2003 through December 31, 2003**

Board of Directors
Whatcom Council of Governments
Bellingham, Washington

COMPLIANCE

We have audited the compliance of the Whatcom 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, 2003. 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 generally accepted 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, 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.

However, we noted other matters involving internal control over compliance that we have reported to the management of the Council in a separate letter dated August 11, 2004.

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

July 8, 2004

Independent Auditor's Report on Financial Statements

Whatcom Council of Governments Whatcom County January 1, 2002 through December 31, 2003

Board of Directors
Whatcom Council of Governments
Bellingham, Washington

We have audited the accompanying financial statements of the Whatcom Council of Governments, Whatcom County, Washington, for the year ended December 31, 2003. 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 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. 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 1 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 financial position of the Whatcom Council of Governments, for the year ended December 31, 2003, on the basis of accounting described in Note 1.

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 supplemental schedules are 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 the first name "Brian" and the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 8, 2004

Financial Statements

**Whatcom Council of Governments
Whatcom County
January 1, 2002 through December 31, 2003**

FINANCIAL STATEMENTS

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Schedule of Investment Activity – 2003
Notes to Financial Statements – 2003

SUPPLEMENTAL INFORMATION

Schedule of State Financial Assistance – 2003
Schedule of Expenditures of Federal Awards – 2003
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance – 2003

MCAG NO.

SCHEDULE 11

Whatcom Council of Governments
SCHEDULE OF CASH ACTIVITY

For the Year Ended December 31, 2003

FUND NO.	DESCRIPTION	CASH ACTIVITY-IN					TOTAL AVAILABLE
		BEGINNING BALANCE	RECEIPTS	INVESTMENTS LIQUIDATED	TRANSFERS-IN		
673	Council of Governments	\$6,339	\$1,610,321	\$1,147,584	\$6,709		\$2,770,953
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
TOTAL		6339	1610321	1147584	6709		2770953

**Whatcom Council of Governments
SCHEDULE OF CASH ACTIVITY
For the Year Ended December 31, 2003**

CASH ACTIVITY-OUT						
FUND NO.	INVESTMENTS ACQUIRED	TRANSFERS OUT TO CLAIMS/PAYROLL	OTHER TRANSFERS-OUT	DISBURSEMENTS	TOTAL USED	ENDING BALANCE
673	\$1,289,082	\$1,470,260		-\$584	\$2,758,758	\$12,195
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
					0	0
TOTAL	1289082	1470260	0	-584	2758758	12195

**Whatcom Council of Governments
SCHEDULE OF INVESTMENT ACTIVITY**

For the Year Ended December 31, 2003

FUND NO.	DESCRIPTION	BEGINNING INVESTMENT BALANCE 01/01/2003	INVESTMENT (AT COST)		REINVESTED INTEREST	ENDING INVESTMENT BALANCE 12/31/2003
			ACQUIRED	LIQUIDATED		
673-630	Council of Governments	113,014	1,284,396	1,147,584	4,686	254,512
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0
						0

WHATCOM COUNCIL OF GOVERNMENTS
Notes To Financial Statements
January 1, 2003 Through December 31, 2003

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The Whatcom Council of Governments (Council) uses the revenue and expenditure classifications contained in the *Budgeting, Accounting and Reporting System (BARS)* manual. The manual is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The Council was incorporated on March 26, 1970 and operates under the laws of the state of Washington applicable to a regional planning commission. The Council is a special purpose government and provides research and planning services to its members. The Council uses the cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. **Reporting Entity**

The council is a voluntary interlocal cooperative consisting of local governments in Whatcom County. At December 31, 2003, 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
Lake Whatcom Water & Sewer District

b. **Fund Accounting**

The accounts of the Council are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the Council:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the Council. It accounts for all financial resources except those required or elected to be accounted for in another fund.

WHATCOM COUNCIL OF GOVERNMENTS

Notes To Financial Statements

January 1, 2003 Through December 31, 2003

c. Basis Of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

d. 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. Budget

An annual appropriated budget is adopted for the Council at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations lapse at the fiscal period end.

The Executive Director is authorized to transfer budgeted amounts between object classes; however, any revisions that alter the total expenditures, or that affect the number of authorized employee positions must be approved by the Council's legislative body.

f. Cash

It is the Council's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is (prorated to the various funds/posted to the general (current expense) fund).

g. Deposits

The Council deposits are covered by the Federal Deposit Insurance Corporation.

h. Investments

See Note No. 3 Investments

i. Capital Assets

Capital assets are long-lived assets of the Council and are recorded as expenditures when purchased.

j. 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.

Sick leave may be accumulated 520 hours. Upon separation or retirement employees do not receive payment for unused sick leave.

WHATCOM COUNCIL OF GOVERNMENTS

Notes To Financial Statements

January 1, 2003 Through December 31, 2003

k. Long-Term Debt

See Note No. 6 Long-Term Debt

l. Other Financing Sources Or Uses

The Council had no other financing sources or uses during the audit period.

m. Risk Management

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.

NOTE 2 - 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 Council.

NOTE 3 - INVESTMENTS

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

Investments by type at December 31, 2003 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
L.G.I.P.	\$ 254,512

NOTE 4 - PROPERTY TAXES

The Council is not authorized to levy property taxes.

NOTE 5 - INTERFUND LOANS AND ADVANCES

The Council had no interfund loans or advanced during the audit period.

NOTE 6 - LONG-TERM DEBT

The Council had no long-term debt during the audit period

WHATCOM COUNCIL OF GOVERNMENTS

Notes To Financial Statements

January 1, 2003 Through December 31, 2003

NOTE 7 - PENSION PLANS

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

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

WHATCOM COUNCIL OF GOVERNMENTS

Schedule 16

SCHEDULE OF STATE FINANCIAL ASSISTANCE
For The Year Ended December 31, 2003

Grantor/Pass-Through Grantor Program Title	Identification Number	Current Year Expenditures
Awards through WA State DOT		
Cascade Gateway Border	Demo-2001(024)	13,740
IMTC Coordination of Binational Planning	CB-1999(011)	25,906
Northern Border Projects	GCA-3404	35,929
O&D Cross Border Study	CB-1999(010)	9,281
ATIS I-5 Northbound	GCA-3473	76,397
Commuter Trip Reduction (Jan - Jun)	GCA-2907	102,044
Commuter Trip Reduction (Jul - Dec)	GCA-3368	39,085
RTPO	GCA-2855	2,598
Total Awards WA State DOT		304,980
Total State Awards Expended		\$ 304,980

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 EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2003

Grantor/Pass-Through Grantor Program Title	CFDA Number	Other Identification Number	Current Year Expenditures
U.S. Department of Transportation Award through WA State DOT			
Federal Highway Administration			
Cascade Gateway Border	20.205	Demo-2001(024)	\$ 602,672
Cascade Gateway & Mobility	20.205	NCPD-2037(087)	\$ 6,205
Chain of Trails	20.205	TCSP-TCSP(002)	\$ 22,941
Coast Millennium Trail	20.205	P-STPE-	\$ 36,382
IMTC Coordination of Binational Planning	20.205	CB-1999(011)	\$ 165,992
ITS & CVO Study - WSDOT TRAC	20.205	GCA-1170	\$ 15,014
MPO - FHWA (Jul - Dec)	20.205	GCA-3631	\$ 53,700
Northern Border Projects	20.205	NCPD-CBI	\$ 427,766
North Sound Kiosks - PE	20.205	STPE-2037(082)	\$ 8,875
North Sound Kiosks - CN	20.205	STPE-2037(082)	\$ 7,644
O&D Cross Border Study	20.205	CB-1999(010)	\$ 11,072
RTPO Unified Planning Work Program	20.205	STPR-2037(083)	\$ 64,640
Mt. Baker Highway - Sites & Signs	20.205	SB-WA99(007)	\$ 2,227
Mt. Baker Highway - Glacier Visitor Center	20.205	SB-WA99(016)	\$ -
Sub Total 20.205			\$ 1,425,130
Federal Transit Administration			
MPO - FTA/FHWA (Jan - Jun)	20.505	GCA-2855	\$ 65,228
Sub Total 20.505			\$ 65,228
Total WA State Dept. of Transportation			\$ 1,490,358
U.S. Department of Transportation Award			
Federal Transit Administration			
Intermodal Connections & Commuter Study	20.514	WA-26-0004	\$ 32,258
International Passenger-only Ferry Study	20.514	WA-26-0004	\$ 4,186
Sub Total 20.514			\$ 36,444
Total US Department of Transportation			\$ 36,444
Total Federal Awards Expended			\$ 1,526,802

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, 2003 Through December 31, 2003

NOTE 1 - BASIS OF ACCOUNTING

In 2002 the Washington State Department of Transportation granted permission for the Council to bill on an expense incurred basis so the Council recognizes expenditures when they are incurred rather than paid to eliminate cash flow issues. Due to these special circumstances, the expenditures listed on the Schedule of Federal Expenditures are expenses that have been incurred but not paid, which is a deviation from the cash basis of accounting the Council uses on their financial statement.

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.