



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements and Federal Single Audit Report

### Whatcom County

**For the period January 1, 2014 through December 31, 2014**

**Published August 24, 2015**

**Report No. 1014853**





## Washington State Auditor's Office

August 24, 2015

Council  
Whatcom County  
Bellingham, Washington

### Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

## TABLE OF CONTENTS

Federal Summary .....	4
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards .....	6
Independent Auditor’s Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	8
Independent Auditor’s Report On Financial Statements .....	11
Financial Section.....	14
About The State Auditor’s Office.....	: 9

## FEDERAL SUMMARY

### **Whatcom County** **January 1, 2014 through December 31, 2014**

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

#### **Financial Statements**

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

##### **Internal Control Over Financial Reporting:**

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

#### **Federal Awards**

##### **Internal Control Over Major Programs:**

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.557	Special Supplemental Nutrition for Women, Infants & Children
14.228	CDBG - State-Administered CDBG Cluster - Community Development Block Grants/State's Program
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$369,572.

The County qualified as a low-risk auditee under OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Whatcom County  
January 1, 2014 through December 31, 2014**

Council  
Whatcom County  
Bellingham, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Whatcom County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 11, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

August 11, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**Whatcom County  
January 1, 2014 through December 31, 2014**

Council  
Whatcom County  
Bellingham, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The County's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, 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 County'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 on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

August 11, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Whatcom County** **January 1, 2014 through December 31, 2014**

Council  
Whatcom County  
Bellingham, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Whatcom County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 14.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Whatcom County, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 25, budgetary comparison information on pages 77 through 79 and information on postemployment benefits other than pensions on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. 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*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2015 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

August 11, 2015

## **FINANCIAL SECTION**

### **Whatcom County January 1, 2014 through December 31, 2014**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –  
2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balance to the Statement of Activities – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
– General Fund – 2014

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
– County Road Fund – 2014

Notes to the Budgetary Comparison Schedule – 2014

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2014

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Year Ended December 31, 2014

Whatcom County's discussion and analysis provides a narrative overview and analysis of the County's financial activities for the fiscal year ended December 31, 2014.

### Financial Highlights

During 2014, the County's financial condition continued to slowly improve. The County's financial position is stable and our financial growth is anticipated to be gradual.

Whatcom County's total assets exceeded liabilities and deferred inflows of resources (net position) by \$373,853,041 as compared to \$313,419,489 in 2013 (19.3 percent increase). 8.6 percent of net position or \$32,038,972 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. Details of factors contributing to the increase in net position are discussed later within this management's discussion and analysis.

\$44.2 million increase in total net position was due to a transfer of land and timber from Washington State Department of Natural Resources to the County.

Building activity is increasing. Building permit revenues are up 7.4 percent from 2013 to 2014.

Whatcom County's expenses for governmental activities increased \$4.0 million or 3.3 percent between 2013 and 2014.

As of December 31, 2014, the County's governmental funds reported combined ending fund balances of \$121.6 million.

At the end of 2014 the unassigned fund balance for the General Fund was \$12,352,490, or approximately 19.0 percent of total General Fund expenditures. Total fund balance for the General Fund increased 5.6 percent for the year.

The County's outstanding general obligation debt total \$3.8 million at the end of 2014.

### 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 statements distinguish functions of Whatcom County that are principally supported by taxes and intergovernmental revenues ("government activities") from functions that are intended to recover all or a significant portion of their

cost through user fees and charges ("business-type activities"). Governmental Activities include services provided to the public, such as law enforcement and public safety; the superior, juvenile, and district court systems; criminal prosecution and indigent defense; jails and corrections programs; road construction and maintenance; storm water management; flood control; community planning and development; parks and open space preservation; protection of public health; elections; property assessment and tax collection. Business-type activity includes Whatcom County's ferry system and the Treasurer's investment pool.

The Statement of Net Position presents information on all the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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, buildings, 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 position changed during the most recent fiscal year. All changes in net position 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).

**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 Position and the Statement of Activities) and governmental funds in a reconciliation after the fund financial statements.
- **Proprietary funds:** When the County charges customers for the 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 Position and the Statement of Activities. In fact, the County's enterprise funds (one type of proprietary fund) are 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 include investment trust funds, used to report investment activity conducted by the County on behalf of legally separate entities, such as special purpose districts that are not part of the County's reporting entity, and agency funds. Since these are not available to support the County's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is similar to that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information.

The combining statements are presented in a separate section immediately following the required supplementary information.

## Government-wide Financial Analysis

The table on the following page reflects a condensed Statement of Net Position.

**Table MDA1 - Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$160,310,091	\$152,700,115	\$2,503,296	\$2,084,831	\$162,813,387	\$154,784,946
Capital assets	240,253,603	185,163,845	3,584	4,226	240,257,187	185,168,071
Total assets	400,563,694	337,863,960	2,506,880	2,089,057	403,070,574	339,953,017
Long-term debt	18,070,590	18,230,218	147,712	130,826	18,218,302	18,361,044
Other liabilities	10,766,899	7,978,569	54,122	15,502	10,821,021	7,994,071
Total liabilities	28,837,489	26,208,787	201,834	146,328	29,039,323	26,355,115
Deferred inflows of resources	178,210	178,413	-	-	178,210	178,413
Net position:						
Net investment in capital assets	237,208,328	181,963,507	3,584	4,226	237,211,912	181,967,733
Restricted	104,602,157	98,335,999	-	-	104,602,157	98,335,999
Unrestricted	29,737,510	31,177,254	2,301,462	1,938,503	32,038,972	33,115,757
Total net position	\$371,547,995	\$311,476,760	\$2,305,046	\$1,942,729	\$373,853,041	\$313,419,489

For more detailed information see the Statement of Net Position.

Net position may serve over time as a useful indicator of a government's financial position. Whatcom County's assets exceeded liabilities and deferred inflows of resources by \$373,853,041 at the close of 2014; this is an increase of \$60.4 million over 2013 net position. Governmental activities increased Whatcom County's net position by \$60,071,235<sup>1</sup>, thereby accounting for 99 percent of the growth in the net position of Whatcom County. Business-type activities increased net position \$362,317.

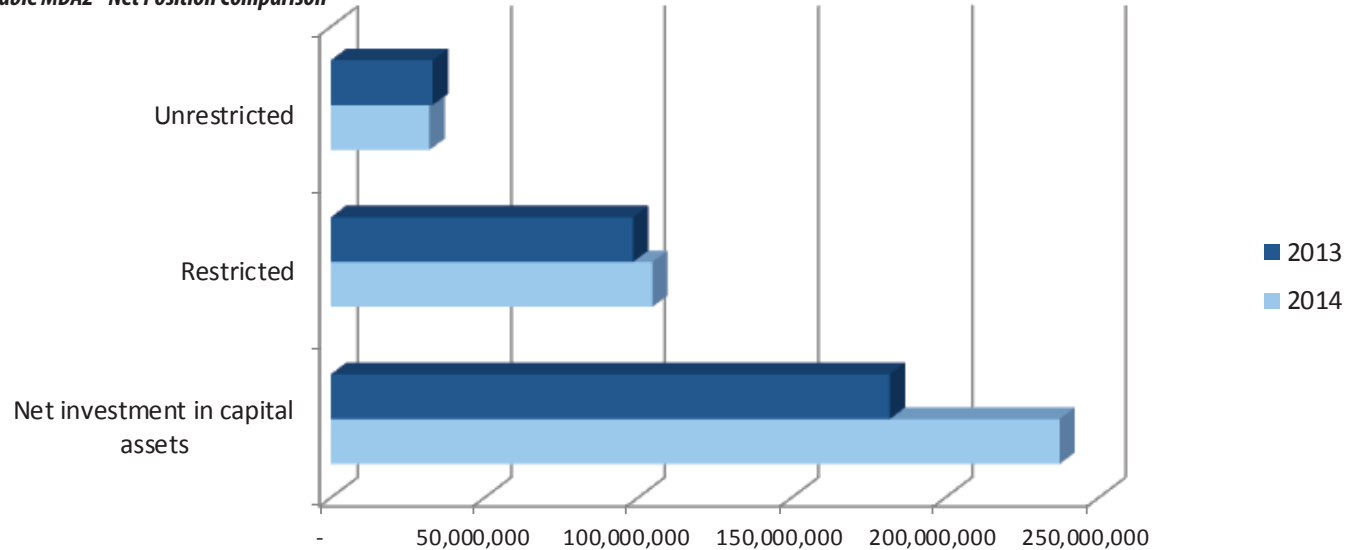
The largest portion of Whatcom County's net position (63 percent) reflects its investment in capital assets (e.g., land, buildings, equipment and infrastructure); less any outstanding debt used to acquire those assets. Whatcom County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Whatcom County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net investment in capital assets increased net position by \$55.2 million. Whatcom County invested \$48.5 million in land, \$12.4 million in infrastructure, \$2.9 million in buildings, \$2.7 million in equipment, \$1.1 million in construction in progress and \$724,000 in improvements. Net investment in capital assets is also increased by repayment of debt related to capital assets and reduced by depreciation charged against capital assets.

Restricted net position totals \$104,602,157 or 28 percent of net position. Restricted net position is subject to external restrictions on how it may be used. Restrictions are imposed by legislation, grantors, bondholders, higher levels of government or through constitutional provisions. Restricted net position increased \$6.3 million.

<sup>1</sup> \$44 million attributable to a transfer of land and timber from Washington State Department of Natural Resources to Whatcom County for Park purposes.

The remaining balance of net position, unrestricted net position (\$32,038,972) may be used to meet the government's ongoing obligations to citizens and creditors.

**Table MDA2 - Net Position Comparison**



# Whatcom County

WASHINGTON

**Table MDA3 - Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenue:						
Charges for services	\$24,244,099	\$23,565,563	\$1,917,273	\$1,875,383	\$26,161,372	\$25,440,946
Operating grants & contributions	21,399,828	21,304,942	-	-	21,399,828	21,304,942
Capital grants & contributions	12,285,684	7,609,133	-	-	12,285,684	7,609,133
General revenue:						
Property taxes	50,107,903	49,162,835	-	-	50,107,903	49,162,835
Timber taxes	-	-	-	-	-	-
Retail taxes	26,485,109	25,757,926	-	-	26,485,109	25,757,926
Business and occupation taxes	31,211	31,439	-	-	31,211	31,439
Excise taxes	4,126,810	2,888,689	-	-	4,126,810	2,888,689
Penalties and interest	-	-	-	-	-	-
Other	6,303,265	5,271,836	-	-	6,303,265	5,271,836
Total revenues	144,983,909	135,592,363	1,917,273	1,875,383	146,901,182	137,467,746
Expenses						
General government	27,929,915	27,733,347	-	-	27,929,915	27,733,347
Public safety	44,827,618	41,025,695	-	-	44,827,618	41,025,695
Utilities	1,065,930	728,915	-	-	1,065,930	728,915
Physical environment	-	-	-	-	-	-
Transportation	22,594,861	22,423,554	-	-	22,594,861	22,423,554
Natural and economic environment	7,978,742	8,756,170	-	-	7,978,742	8,756,170
Social services	19,161,487	19,148,787	-	-	19,161,487	19,148,787
Culture and recreation	4,317,013	4,001,986	-	-	4,317,013	4,001,986
Interest on long-term debt	152,606	175,929	-	-	152,606	175,929
Whatcom Co. Investment Pool	-	-	265,862	255,269	265,862	255,269
Ferry System	-	-	2,393,596	2,538,920	2,393,596	2,538,920
Total expenses	128,028,172	123,994,383	2,659,458	2,794,189	130,687,630	126,788,572
Change in net position before transfers	16,955,737	11,597,980	(742,185)	(918,806)	16,213,552	10,679,174
Special item	44,220,000	-	-	-	44,220,000	-
Transfers	(1,104,502)	(1,134,728)	1,104,502	1,134,728	-	-
Change in net position	60,071,235	10,463,252	362,317	215,922	60,433,552	10,679,174
Net position-beginning	311,476,760	300,915,446	1,942,729	1,725,906	313,419,489	302,641,352
Prior period adjustment	-	98,062	-	901	-	98,963
Net position-beginning (restated)	311,476,760	301,013,508	1,942,729	1,726,807	313,419,489	302,740,315
Net position-ending	\$371,547,995	\$311,476,760	\$2,305,046	\$1,942,729	\$373,853,041	\$313,419,489

For more detailed information see the Statement of Activities.

Overall revenues are up \$9.4 million.

Property tax revenue is up \$945,000 or 1.9 percent over last year.

Sales tax revenue is up \$727,000 or 2.8 percent from 2013.

Capital grants and contributions are \$4.7 million greater than 2013. These revenues fluctuate based on the capital projects that are underway during the year.

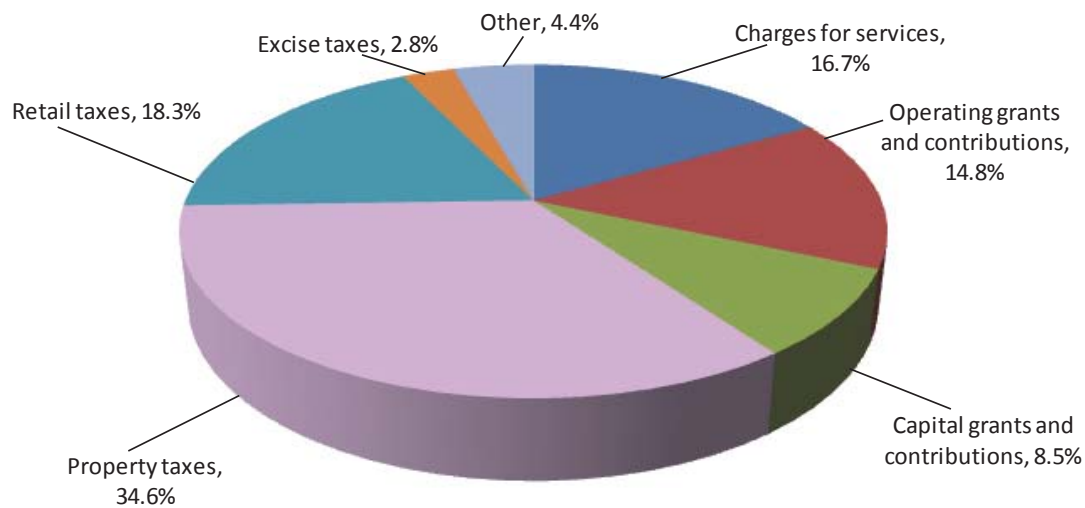
Excise tax increased \$1.2 million or 42.9 percent from 2013. Revenue from the excise tax on the sale of real property contributed \$899,000 to this increase.

Other revenues are \$1.0 million higher than last year. Investment earnings are slightly up from 2013 but the primary reason for this increase is the reversal of an unrealized loss based on current market value of investments at year end.

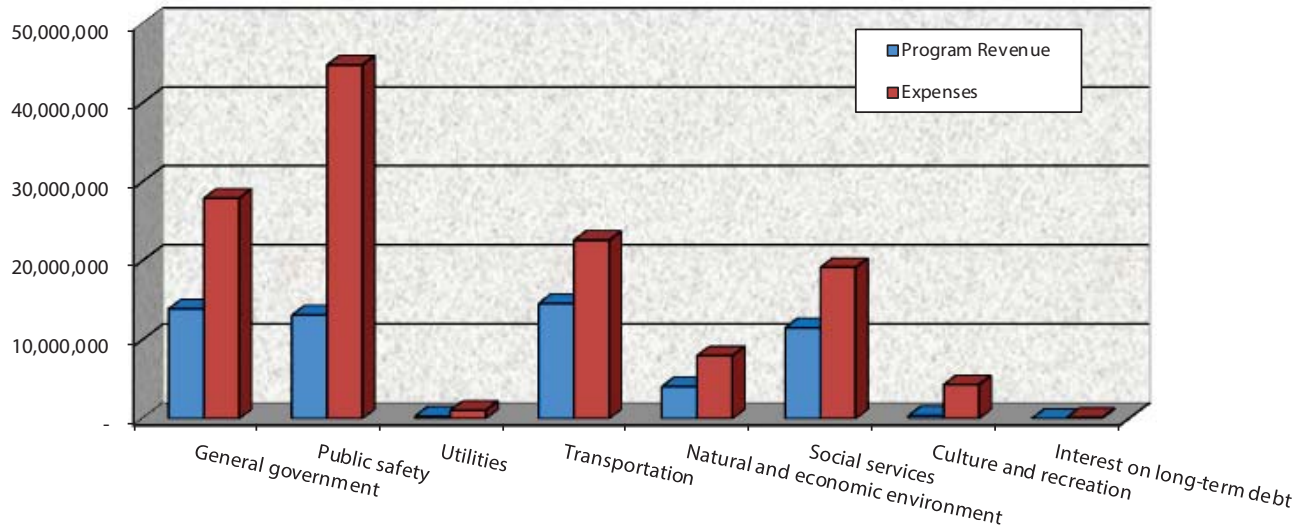
Expenses increased \$3.9 million or 3.1 percent.

The growth in net position of \$60.4 million is primarily due to the increase in capital grants and land acquired from Washington State Department of Natural Resources (\$44.2 million).

**Table MDA4 - Revenues by Source-Governmental Activities**



**Table MDA5 - Expenses and Program Revenues-Governmental Activities**



## Financial Analysis of the County's Funds

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements.

As of December 31, 2014, the County's governmental funds reported combined fund balances of \$121.6 million; this is an increase of \$6.9 million over 2013 or 6 percent. Overall the funds collected 94 percent of their budgeted revenues and expended 73 percent of their budgeted expenditures.

Unassigned fund balance is \$12.4 million or approximately 10 percent. Unassigned fund balance is available for spending for any purpose. Assigned fund balance is \$2.8 million or approximately 2 percent. Assigned fund balance represents resources Whatcom County intends to use for specific purposes. Committed fund balance totals \$7.9 million or approximately 7 percent. Committed fund balance has been restricted for a specific use by the County Council. The remainder of the County's fund balances is classified as restricted. Restricted fund balance totals \$98.5 million or approximately 81 percent. Restricted fund balance may only be used for specific purposes. Restrictions are imposed by legislation, grantors, bondholders, higher levels of government or through constitutional provisions.

The General Fund is the primary operating fund for the Whatcom County. At the end of 2014, unassigned fund balance of the General Fund was \$12.4 million, while total fund balance increased to \$13.0 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to

total General Fund expenditures. Unassigned fund balance represents approximately 19.0 percent of total General Fund expenditures, while total fund balance represents approximately 20.0 percent of that same amount.

During 2014, the fund balance of the General Fund increased by \$686,000. This compares to an increase in fund balance of \$924,000 in 2013. Revenues are slightly higher than 2013 and expenditures are \$1.0 million less than 2013. Transfers out decreased \$3.0 million and sales of capital assets are \$4.4 million less than 2013 (In 2013, the General Fund sold the Civic Center building to the Road Fund.).

Under GASB 54 certain Special Revenue Funds are required to be reported in the General Fund. For 2014, the LEOFF I Healthcare Fund is combined into the General Fund.

The County Road Fund had a fund balance of \$27.8 million in 2014 which is up from \$25.0 million in 2013. This \$2.8 million increase in fund balance is primarily due to 2014 revenues exceeding expenditures due to decreased capital spending.

The fund balance for the Public Utilities Improvement Fund increased \$3.2 million. Various projects were not complete at year end. \$8.6 million of expenditures budgeted in 2014 will be carried over into 2015.

### 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, 2014.

**Table MDA6 - Condensed General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance**

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	\$40,516,215	\$40,841,215	\$41,246,226
Intergovernmental	14,066,740	16,049,679	14,854,804
Other	15,757,253	16,182,475	16,370,498
Total revenues	70,340,208	73,073,369	72,471,528
Expenditures:			
Expenditures	68,666,601	71,632,035	65,090,183
Other financing sources (uses)	(3,266,679)	(6,441,771)	(6,695,804)
Total expenditures	71,933,280	78,073,806	71,785,987
Change to fund balance	\$(1,593,072)	\$(5,000,437)	\$685,541

General Fund actual revenues are less than budget by \$602,000. Intergovernmental revenue received was \$1.2 million less than budgeted revenue. Tax revenues are greater than budgeted amounts by \$405,000.

Overall expenditures for the General Fund are 91 percent of the approved budget at year-end. All departments had expenditures within their budgeted authority.

## Capital Assets and Debt Administration

**Capital assets.** The County's investment in capital assets for its governmental activities as of December 31, 2014, amounts to \$240 million (net of accumulated depreciation). This investment in capital assets includes land, right-of-way, easements and development rights, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in capital assets over 2013 was approximately 29.8 percent.

Major capital asset events during 2014 included the following:

- 8,844 acres of land and timber was transferred to the County from the Washington State Forest Board with an estimated value of \$44.2 million.
- Purchased property at 1500 North State Street for a cost of \$2.7 million.
- \$2.5 million was spent for property on Birch Bay Drive that is intended to be a future site for a park and community center.
- Remodel of the courthouse for the fourth judge's courtroom at a cost of \$1.1 million.
- New equipment purchases totaled \$2.7 million which included vehicles and road maintenance equipment.
- Various projects related to roads, bridges, road-related improvements and drainage systems totaled \$12.4 million.

**Table MDA7 - Capital Assets**

	Governmental Activities	
	2014	2013
Land	\$101,049,212	\$52,538,339
Construction in progress	2,690,332	1,613,880
Intangible assets	50,400	50,400
Buildings	47,165,024	46,197,171
Improvements	6,091,098	8,089,894
Equipment	8,859,275	8,206,949
Infrastructure	74,348,262	68,467,213
Totals	\$240,253,603	\$185,163,846

*For more detailed information see Capital Assets Activity.*

**Long-term debt.** At year-end, the County had \$18,070,590 in outstanding debt compared to \$18,230,218 last year. That is a decrease of \$159,628. The County's outstanding general obligation debt totaled \$3.8 million. See Note 9 to the financial statements.

**Table MDA8 - Outstanding Debt**

	Governmental Activities	
	2014	2013
General Obligation Bonds	\$3,480,938	\$3,818,596
Capital Leases	311,275	441,338
Estimated Self-Insurance Claims	4,169,744	4,502,343
Other Postemployment Benefits Payable	2,437,493	1,902,009
Compensated Absences	7,421,140	7,315,932
Other Long-term Liabilities	250,000	250,000
	<u>\$18,070,590</u>	<u>\$18,230,218</u>

State statutes limit the amount of general obligation debt the County may issue to 2.5 percent with a vote and 1.5 percent with no vote required. The current debt limitation for Whatcom County is \$592.9 million with a vote and \$349.8 without a vote, both of which are significantly in excess of the County's outstanding general obligation debt of \$3.8 million.

## Economic Factors

Whatcom County's local economy is gradually recovering from the effects of the global recession. Retail sales are up 2.2 percent over 2013. The unemployment rate remained almost unchanged from 2013. As of December 2014, the rate was 6.4 percent. The population of Whatcom County has grown 17.1 percent over ten years ago. Per capita income of Whatcom County has been growing in recent years at approximately 3.9 percent. For 2014, the assessed valuations of property increased slightly (1 percent) over 2013.

## 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.

Statement of Net Position  
December 31, 2014

# Whatcom County

WASHINGTON

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash, cash equivalents and pooled investments	\$129,409,559	\$2,032,280	\$131,441,839
Cash with fiscal agent	15,554	18,650	34,204
Investments	14,540,638	-	14,540,638
Receivables, net	2,379,925	59,811	2,439,736
Receivables-court, net	2,508,467	-	2,508,467
Due from other governments	10,466,419	-	10,466,419
Internal balances	(392,555)	392,555	-
Inventories	1,382,084	-	1,382,084
Capital assets:			
Non-depreciable	101,049,212	-	101,049,212
Depreciable, net	139,204,391	3,584	139,207,975
<b>Total assets</b>	<b>400,563,694</b>	<b>2,506,880</b>	<b>403,070,574</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	7,905,505	54,122	7,959,627
Due to other governments	230,243	-	230,243
Unearned revenue	2,631,151	-	2,631,151
Noncurrent liabilities (Note 9):			
Due within one year	11,081,049	108,908	11,189,957
Due in more than one year	6,989,541	38,804	7,028,345
<b>Total liabilities</b>	<b>28,837,489</b>	<b>201,834</b>	<b>29,039,323</b>
<b>Deferred inflows of resources</b>			
Grants received in advance	178,210	-	178,210
<b>Total deferred inflows of resources</b>	<b>178,210</b>	<b>-</b>	<b>178,210</b>
<b>Net position</b>			
Net investment in capital assets	237,208,328	3,584	237,211,912
Restricted for:			
General government	889,014	-	889,014
Public safety	1,881,909	-	1,881,909
Utilities	2,159,614	-	2,159,614
Transportation	28,535,222	-	28,535,222
Natural and economic environment	17,767,579	-	17,767,579
Social services	6,718,694	-	6,718,694
Culture and recreation	2,865,448	-	2,865,448
Debt service	1,562	-	1,562
Capital projects	43,783,115	-	43,783,115
Unrestricted (deficit)	29,737,510	2,301,462	32,038,972
<b>Total net position</b>	<b>\$371,547,995</b>	<b>\$2,305,046</b>	<b>\$373,853,041</b>

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

Functions/ Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Position - Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$27,929,915	\$7,604,267	\$6,303,162	\$-	\$(14,022,486)	\$-	\$(14,022,486)
Public safety	44,827,618	10,706,721	2,427,469	-	(31,693,428)	-	(31,693,428)
Utilities	1,065,930	-	322,668	-	(743,262)	-	(743,262)
Transportation	22,594,861	2,315,887	-	12,285,684	(7,993,290)	-	(7,993,290)
Natural and economic environment	7,978,742	923,215	3,150,391	-	(3,905,136)	-	(3,905,136)
Social services	19,161,487	2,399,275	9,120,593	-	(7,641,619)	-	(7,641,619)
Culture and recreation	4,317,013	294,734	75,545	-	(3,946,734)	-	(3,946,734)
Interest on long-term debt	152,606	-	-	-	(152,606)	-	(152,606)
<b>Total governmental activities</b>	<b>128,028,172</b>	<b>24,244,099</b>	<b>21,399,828</b>	<b>12,285,684</b>	<b>(70,098,561)</b>	<b>-</b>	<b>(70,098,561)</b>
Business-type activities:							
Whatcom Co Investment Pool	265,862	214,157	-	-	-	(51,705)	(51,705)
Ferry System	2,397,874	1,703,116	-	-	-	(694,758)	(694,758)
<b>Total business-type activities</b>	<b>2,663,736</b>	<b>1,917,273</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(746,463)</b>	<b>(746,463)</b>
<b>Total primary government</b>	<b>\$130,691,908</b>	<b>\$26,161,372</b>	<b>\$21,399,828</b>	<b>\$12,285,684</b>	<b>(70,098,561)</b>	<b>(746,463)</b>	<b>(70,845,024)</b>
General Revenues:							
Taxes:							
Property taxes					50,107,903	-	50,107,903
Retail taxes					26,485,109	-	26,485,109
Business and occupation taxes					31,211	-	31,211
Excise taxes					4,126,810	-	4,126,810
Unrestricted investment earnings and unrealized gains/ (losses)					911,649	4,278	915,927
Gain/loss on sale of capital assets					530,863	-	530,863
Miscellaneous					4,860,753	-	4,860,753
Special item-capital contribution					44,220,000	-	44,220,000
Transfers					(1,104,502)	1,104,502	-
<b>Total general revenues, special items and transfers</b>					<b>130,169,796</b>	<b>1,108,780</b>	<b>131,278,576</b>
Change in net position					<b>60,071,235</b>	<b>362,317</b>	<b>60,433,552</b>
Net position-beginning					<b>311,476,760</b>	<b>1,942,729</b>	<b>313,419,489</b>
<b>Net position-ending</b>					<b>\$371,547,995</b>	<b>\$2,305,046</b>	<b>\$373,853,041</b>

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

Balance Sheet  
Governmental Funds  
December 31, 2014

# Whatcom County

WASHINGTON

	General	County Road	Public Utilities Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash, cash equivalents and pooled investments	\$14,642,392	\$25,492,843	\$16,766,375	\$48,364,063	\$105,265,673
Deposits with fiscal agent	9,554	-	-	-	9,554
Investments	-	-	-	14,540,638	14,540,638
Taxes receivable, net	759,177	613,378	-	134,483	1,507,038
Accounts receivable, net	360,296	47,019	-	203,098	610,413
Accounts receivable-court, net	2,416,550	-	-	91,917	2,508,467
Special assessments, net	-	-	-	61,186	61,186
Interest receivable, net	60,825	-	-	6,387	67,212
Notes receivable, net	-	-	-	108,373	108,373
Interfund receivable	171,230	168,542	-	565,889	905,661
Interfund loan receivable	-	3,000,000	-	100,000	3,100,000
Due from other governments	1,760,258	46,420	4,186,056	4,464,147	10,456,881
Employee advances	1,052	96	-	-	1,148
Prepayments	4,892	-	-	-	4,892
<b>Total assets</b>	<b>\$20,186,226</b>	<b>\$29,368,298</b>	<b>\$20,952,431</b>	<b>\$68,640,181</b>	<b>\$139,147,136</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$1,529,522	\$659,206	\$63,016	\$4,397,736	\$6,649,480
Interfund payable	142,475	139,912	-	791,130	1,073,517
Interfund loans payable	1,673,344	-	-	3,100,000	4,773,344
Revenue collected in advance	30,141	-	-	-	30,141
Due to other governments	211,755	-	-	18,488	230,243
Other accrued liabilities	135,775	100,164	-	2,324	238,263
Other current liabilities	10,840	27,289	-	-	38,129
Unearned revenue	2,430,872	15,066	-	261,466	2,707,404
Deferred credits	46,625	61,287	-	1,037	108,949
<b>Total liabilities</b>	<b>6,211,349</b>	<b>1,002,924</b>	<b>63,016</b>	<b>8,572,181</b>	<b>15,849,470</b>
<b>Deferred inflows of resources</b>	<b>937,376</b>	<b>613,378</b>	<b>-</b>	<b>134,493</b>	<b>1,685,247</b>
<b>Fund balances:</b>					
Restricted	685,011	27,751,996	20,889,415	49,220,869	98,547,291
Committed	-	-	-	7,873,940	7,873,940
Assigned	-	-	-	2,838,698	2,838,698
Unassigned	12,352,490	-	-	-	12,352,490
<b>Total fund balances</b>	<b>13,037,501</b>	<b>27,751,996</b>	<b>20,889,415</b>	<b>59,933,507</b>	<b>121,612,419</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$20,186,226</b>	<b>\$29,368,298</b>	<b>\$20,952,431</b>	<b>\$68,640,181</b>	<b>\$139,147,136</b>

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

Reconciliation of the Governmental Funds  
Balance Sheet  
to the Statement of Net Position  
December 31, 2014



Fund balance - total governmental funds	\$121,612,419
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	231,579,683
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.	30,006,893
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	1,583,290
Liabilities, including \$4,031,005 of bonds/ loans payable, \$6,765,792 of compensated absences and \$2,437,493 of other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.	<u>(13,234,290)</u>
Net position of governmental activities	<u>\$371,547,995</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, 2014

# Whatcom County

W A S H I N G T O N

	General	County Road	Public Utilities Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$41,246,226	\$17,702,546	\$3,325,481	\$19,600,886	\$81,875,139
Licenses and permits	2,276,621	142,867	-	-	2,419,488
Intergovernmental	14,854,804	5,032,633	-	13,561,011	33,448,448
Charges for service	8,007,422	1,215,297	-	9,063,789	18,286,508
Fines and penalties	2,379,101	-	-	200,076	2,579,177
Miscellaneous	3,707,354	262,974	101,130	1,649,394	5,720,852
<b>Total revenues</b>	<b>72,471,528</b>	<b>24,356,317</b>	<b>3,426,611</b>	<b>44,075,156</b>	<b>144,329,612</b>
<b>Expenditures</b>					
Current:					
General government	24,198,258	477,156	115,845	1,664,062	26,455,321
Public safety	22,386,188	-	-	21,452,087	43,838,275
Utilities	-	-	-	963,733	963,733
Transportation	-	16,613,988	-	32,547	16,646,535
Natural and economic environment	1,987,533	-	-	5,973,638	7,961,171
Social services	12,935,197	-	-	6,243,283	19,178,480
Culture and recreation	3,537,036	-	-	574,119	4,111,155
Capital outlay	28,068	1,390,898	22,768	17,437,456	18,879,190
Debt service:					
Principal	-	-	-	310,000	310,000
Interest	17,903	-	-	158,066	175,969
<b>Total expenditures</b>	<b>65,090,183</b>	<b>18,482,042</b>	<b>138,613</b>	<b>54,808,991</b>	<b>138,519,829</b>
Excess (deficiency) of revenues over expenditures	7,381,345	5,874,275	3,287,998	(10,733,835)	5,809,783
<b>Other financing sources (uses)</b>					
Sales of capital assets	222,931	270,564	-	37,368	530,863
Transfers in	3,426,982	50,000	-	17,144,065	20,621,047
Transfers out	(10,354,557)	(3,443,758)	(127,075)	(6,124,148)	(20,049,538)
Capital lease proceeds	8,840	-	-	-	8,840
<b>Total other financing sources (uses)</b>	<b>(6,695,804)</b>	<b>(3,123,194)</b>	<b>(127,075)</b>	<b>11,057,285</b>	<b>1,111,212</b>
Net change in fund balances	685,541	2,751,081	3,160,923	323,450	6,920,995
Fund balances-beginning	12,351,960	25,000,915	17,728,492	59,610,057	114,691,424
<b>Fund balances-ending</b>	<b>\$13,037,501</b>	<b>\$27,751,996</b>	<b>\$20,889,415</b>	<b>\$59,933,507</b>	<b>\$121,612,419</b>

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 Funds to the Statement of Activities  
Year Ended December 31, 2014



Net change in fund balances-total governmental funds	\$6,920,995
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 (\$63,242,385) exceeded depreciation expense (\$9,285,324) in the current period.	53,957,061
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.	(451,393)
Revenues in the funds that are related to prior periods are not revenues in the statement of activities.	(175,238)
In the statement of activities, certain operating expenses-compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	(490,190)
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<u>310,000</u>
Change in net position of governmental activities	<u>\$60,071,235</u>

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

Statement of Net Position  
Proprietary Funds  
December 31, 2014

# Whatcom County

WASHINGTON

	Enterprise Funds	Internal Service Funds
<b>Assets</b>		
Current assets		
Cash, cash equivalents and pooled investments	\$2,032,280	\$24,143,886
Deposits with fiscal agent	18,650	6,000
Receivables, net	-	5,402
Interfund receivable	23,694	233,172
Due from other governments	-	9,538
Interfund loan receivable	-	1,673,344
Inventories	-	1,382,084
Prepayments	36,117	-
<b>Total current assets</b>	<b>2,110,741</b>	<b>27,453,426</b>
Noncurrent assets		
Capital assets:		
Land	-	440,614
Building and structures, net	-	1,170,935
Capital leases, net	-	15,161
Other improvements, net	-	318,733
Machinery and equipment, net	3,584	6,678,077
Intangible assets, net	-	50,400
Total capital assets, net	3,584	8,673,920
<b>Total noncurrent assets</b>	<b>3,584</b>	<b>8,673,920</b>
<b>Total assets</b>	<b>2,114,325</b>	<b>36,127,346</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	18,253	836,591
Claims cost payable	-	3,987,681
Interfund payable	35,869	53,143
Compensated absences	147,712	655,348
<b>Total current liabilities</b>	<b>201,834</b>	<b>5,532,763</b>
Noncurrent liabilities		
Other noncurrent liabilities	-	197,223
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>197,223</b>
<b>Total liabilities</b>	<b>201,834</b>	<b>5,729,986</b>
<b>Net position</b>		
Net investment in capital assets	3,584	8,673,920
Unrestricted	1,908,907	21,723,440
<b>Total net position</b>	<b>1,912,491</b>	<b>\$30,397,360</b>
Some amounts reported for business-type activities in the statement of net position are different because certain internal service fund assets and liabilities are included with business-type activities.	392,555	
<b>Net position of business-type activities</b>	<b>\$2,305,046</b>	

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

Statement of Revenues, Expenses  
and Changes in Fund Net Position  
Proprietary Funds  
Year Ended December 31, 2014

**Whatcom County**  
W A S H I N G T O N

	Enterprise Funds	Internal Service Funds
<b>Operating revenues</b>		
Intergovernmental	\$211,515	\$46,771
Charges for service	1,481,783	13,776,289
Rents and parking	-	4,963,552
Fines and forfeits	-	1,120
Insurance premiums	-	9,084,780
Miscellaneous	223,975	82,703
<b>Total operating revenues</b>	<u>1,917,273</u>	<u>27,955,215</u>
<b>Operating expenses</b>		
General operations	2,490,511	24,949,717
General administration	229,841	702,234
Depreciation	642	1,377,657
<b>Total operating expenses</b>	<u>2,720,994</u>	<u>27,029,608</u>
<b>Operating income (loss)</b>	<u>(803,721)</u>	<u>925,607</u>
<b>Non-operating revenues (expenses)</b>		
Gain (loss) on sale of capital assets	-	112,955
Interest revenue	-	17,903
Interest expense	-	(342)
Unrealized gain (loss) on investments	4,278	78,896
Insurance recoveries	-	146,857
<b>Total non-operating revenues (expenses)</b>	<u>4,278</u>	<u>356,269</u>
<b>Income (loss) before transfers</b>	<u>(799,443)</u>	<u>1,281,876</u>
Transfers in	1,104,502	406,883
Transfers out	-	(2,082,894)
<b>Changes in net position</b>	<u>305,059</u>	<u>(394,135)</u>
<b>Total net position-beginning</b>		<u>30,791,495</u>
<b>Total net position-ending</b>		<u>\$30,397,360</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.	57,258	
<b>Change in net position of business-type activities</b>	<u>\$362,317</u>	

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

	Enterprise Funds	Internal Service Funds
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$1,906,209	\$28,131,110
Payments for goods and services	(1,326,656)	(19,303,422)
Payments to employees	(1,386,563)	(6,825,409)
<b>Net cash provided (used) by operating activities</b>	<b>(807,010)</b>	<b>2,002,279</b>
<b>Cash flows from non-capital financing activities:</b>		
Transfers in	1,104,502	346,858
Transfers out	-	(2,082,894)
Interest revenue	-	17,903
Insurance recoveries	-	146,857
<b>Net cash provided (used) by non-capital financing activities</b>	<b>1,104,502</b>	<b>(1,571,276)</b>
<b>Cash flows from capital financing activities:</b>		
Interest paid on capital debt	-	(342)
Transfers in	-	60,025
Proceeds from sale of assets	-	231,496
Purchases of capital assets	-	(2,638,930)
<b>Net cash provided (used) by capital financing activities</b>	<b>-</b>	<b>(2,347,751)</b>
<b>Cash flows from investing activities:</b>		
Unrealized gain (loss) on investments	4,278	78,896
<b>Net cash provided (used) by investing activities</b>	<b>4,278</b>	<b>78,896</b>
Net increase (decrease) in cash and cash equivalents	301,770	(1,837,852)
Balances - beginning of the year	1,730,510	25,981,738
Balances - end of the year	\$2,032,280	\$24,143,886
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$(803,721)	\$925,607
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>		
Depreciation expense	642	1,377,657
Change in assets and liabilities:		
Receivables, net	(59,436)	(58,033)
Inventories	-	(96,541)
Accounts and other payables	38,619	(140,816)
Accrued expenses	16,886	(5,595)
<b>Net cash provided by operating activities</b>	<b>\$(807,010)</b>	<b>\$2,002,279</b>

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

Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2014



	Investment Trust Fund	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$-	\$15,612,096
Deposits with fiscal agent	-	169,754
Assets held in trust-external investment pool	-	186,767,802
Investments	186,767,802	-
Accounts receivable, net	-	10,062
Due From Other Governments	-	56,925
<b>Total assets</b>	<b>186,767,802</b>	<b>202,616,639</b>
<b>Liabilities</b>		
Warrants payable	-	7,362,601
Accounts payable	-	268,257
Matured interest payable	-	5,000
Other accrued liabilities	-	87,569
Revenue collected in advance	-	188,005
Custodial accounts	-	194,705,207
<b>Total liabilities</b>	<b>-</b>	<b>202,616,639</b>
<b>Net position</b>		
Held in trust for pool participants	<b>\$186,767,802</b>	<b>\$-</b>

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

Statement of Changes in Fiduciary Net Position  
 Fiduciary Funds  
 Year Ended December 31, 2014



	Investment Trust Fund
<b>Additions</b>	
Contributions	\$153,673,523
Investment earnings:	
Interest	864,382
Net increase (decrease) in fair value of investments	322,657
<b>Total additions</b>	<u>154,860,562</u>
<b>Deductions</b>	
Distributions	<u>158,698,001</u>
<b>Total deductions</b>	158,698,001
<b>Change in net position</b>	(3,837,439)
Net position-beginning	<u>190,605,241</u>
Net position-ending	<u>\$186,767,802</u>

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

## 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 required by the generally accepted accounting principles the financial statements present Whatcom County- the primary government and two blended component units for which the County is financially accountable. Blended component units are legally separate entities, but are in substance a part of the County's operations and therefore the data from these units is combined with the data from the primary government.

**Blended Component Units:** The Flood Control Zone District was established in 1991 to implement and oversee the river improvement program and flood hazard management program. The current County Council serves as the entire governing body. The Flood Control Zone District is reported as a special revenue fund.

The Point Roberts Transportation Benefit District was established in 1991 to address the transportation needs of the Point Roberts area. The current County Council serves as the entire governing body. The Point Roberts Transportation Benefit District is reported as a special revenue fund.

### B. FINANCIAL STATEMENT PRESENTATION, MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The County government-wide financial statements include a Statement of Net Position and a Statement of Activities. 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 Position. The Statement of Activities presents changes in net position 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 Position 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 county policy to use restricted resources first, then unrestricted 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 position and changes in net position 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. Revenue consists primarily of property taxes, motor vehicle fuel tax and grants.
- **Public Utilities Improvement Fund:** This fund accounts for the collection of a rural county sales or use tax (pursuant to RCW 82.14.370) that provides funds for financing public facilities.

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 sixty days of the end of the current fiscal period. Property tax, franchise fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue 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 Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, 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 and the Ferry System are the County's enterprise funds.
- **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. The County's internal service funds are Equipment Rental and Revolving and Administrative Services.

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 Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total net position. 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.

## FIDUCIARY FUND FINANCIAL STATEMENTS

Fiduciary fund financial statements include a Statement of Net Position and a Statement of Changes in Net Position (for Investment Trust Funds). Fiduciary funds are accounted for using the accrual basis of accounting, as are proprietary funds explained above. Whatcom County has two types of fiduciary funds: investment trust funds and agency funds.

Investment trust funds are used to report investment activity conducted by Whatcom County on behalf of legally separate entities such as special purpose districts that are not part of the County's reporting entity. Agency funds account for cash received and disbursed in the County's capacity as ex officio treasurer or collection agent for special purpose districts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

## C. BUDGETARY INFORMATION

Annual appropriated budgets are adopted on the modified accrual basis of accounting for all funds except the following special revenue funds: Tax Refund, REET Technology and Emergency Communications; debt service funds: CRID No. 9 General Debt and 2003 Ltd. Tax General Obligation Bond; and capital project fund: Lummi Nation Lease, which are not budgeted. 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.

Whatcom County implemented project budgeting in 2006. Project budgets are limited to capital appropriations. Project budgets may be adopted by project phase or for the entire project. Once adopted, project budgets continue until the project is complete, abandoned, or until no expenditures have been made for three years.

Except for project budgets, 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 total expenditures of a fund, department, 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 Cash Equivalents:** Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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, with the exception of the Veterans' Relief Fund, Whatcom County Trial Court Improvement Fund, Drug Fund, Ferry System Fund, Chemical Dependency/Mental Health Fund, Countywide Emergency Medical Services Fund, Flood Control Zone District Fund, Sub-Zone Funds, County Park Improvement Fund and 2010 Jail Improvement Fund. Investments are shown on the balance sheet at fair value.

**Temporary Investments:** See Note 4.

**Receivables:** Taxes receivable consist of property taxes due as of December 31 (See Note 5). Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

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.

Court receivables consist of amounts owed Whatcom County as a result of court decisions in Superior Court and District Court. Court receivables include criminal penalties, infraction and probation fees. Receivables are shown net of allowances for uncollectible accounts. Court receivables are offset by deferred revenue and therefore are not reported as revenue on Whatcom County's Statement of Activities or on Whatcom County's Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds.

Notes receivable 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. Notes receivable also include amounts due from private individuals for on-site sewage system repairs. These loans are funded through Washington State Department of Ecology. Both of 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 60 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 is referred to as "interfund loans receivable/payable." All other outstanding balances between funds are reported as "interfund receivable/interfund payable." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note 12 (Interfund Balances and Transfers).

**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 6. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable government

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 and Depreciation**

Capital Asset	Useful Life	Capitalization Threshold
Buildings	50 years	\$ 5,000
Capital Leases	3-30 years	\$ 5,000
Improvements	5-30 years	\$ 5,000
Machinery and Equipment	3-10 years	\$ 5,000
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.

**Deferred Inflows of Resources:** These accounts include acquisitions of net assets that are applicable to a future reporting period. Grants received in advance and deferred property taxes are included in these accounts.

**Compensated Absences:** The County records all accumulated unused vacation and sick leave. Vacation pay, which may be accumulated up to 30 days (employees with paid time off may accumulate up to 41 days), is payable upon resignation, retirement or death. Sick leave may accumulate up to 120 days. Employees hired before May 15, 1984 can receive a cash payout of 50 percent of their accrued sick leave balance. An employee hired after that date with three years of service can receive 25 percent of their accrued sick leave. The amount reported for the employee leave benefit accrual includes 100 percent of the vacation leave accrual as of December 31, 2014 and 2013. Sick leave accruals are recorded at 50 percent if hired prior to May 15, 1984 or 25 percent sick leave accrual if hired after.

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

**Other Accrued Liabilities:** These accounts consist of accrued wages and accrued employee benefits.

**Unearned 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 9.

**Fund Balance Classifications:** The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*- amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- *Restricted fund balance*- amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- *Committed fund balance*- amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- *Assigned fund balance*- amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- *Unassigned fund balance*- amounts that are available for any purpose; positive amounts are reported only in the General Fund.

**Fund Balance Details:** See table on following page for fund balance details.

**Table FN2 - Fund Balance Details**

	General	County Road	Public Utilities Improvement	Other Gov't'l Funds	Total
<b>Fund balances:</b>					
<b>Restricted for:</b>					
Boating safety	104,650				104,650
Historical document preservation	229,667				229,667
Developmental disability milage	350,694				350,694
County roads		27,751,996			27,751,996
Public facilities projects			20,889,415		20,889,415
Debt service				1,562	1,562
Capital projects				17,611,532	17,611,532
Parks and recreation				143,213	143,213
Chemical dependency/ mental health				5,707,678	5,707,678
Emergency medical/ criminal justice				1,737,443	1,737,443
Flood control/ stormwater				16,023,444	16,023,444
Land purchases				1,672,953	1,672,953
Social services				1,082,198	1,082,198
Solid waste				2,159,614	2,159,614
Tourism promotion				1,264,526	1,264,526
Other purposes				1,816,706	1,816,706
<b>Committed to:</b>					
Elections				568,436	568,436
Parks and recreation				1,493,579	1,493,579
Capital projects				5,811,925	5,811,925
<b>Assigned to:</b>					
Corrections				2,640,514	2,640,514
Parks and recreation				50,373	50,373
Emergency management				147,811	147,811
<b>Unassigned:</b>	12,352,490				12,352,490
Total fund balances	<u>\$13,037,501</u>	<u>\$27,751,996</u>	<u>\$20,889,415</u>	<u>\$59,933,507</u>	<u>\$121,612,419</u>

**Minimum Fund Balance:** The County has established a minimum fund balance policy. This policy applies to the General Fund, County Road Fund and Flood Control Zone District Fund. Per the policy, the Executive will only propose budgets or budget revisions that result in an ending fund balance of at least 15 percent of the fund's annual revenue of the most recently closed fiscal year.

## NOTE 2 – ACCOUNTING AND REPORTING CHANGES

For 2014, the Point Roberts Transportation Benefit District is reported as a blended component unit of the County. Since established the District has been reported incorrectly as part of the County. This change has no effect on beginning net assets or fund net assets.

During 2014, the following funds were added: Parks Special Revenue Fund, Slater Road Intersections Project Fund, Dakota Creek Bridge No. 500 Project Fund and Telecommunications System Replacement Fund.

### NOTE 3 – VIOLATION OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

There have been no material violations of finance-related legal or contractual provisions in any of the funds of the County. At December 31, 2014 the Nessel Farm Restoration Fund reported a deficit in fund balance of \$181. The Nessel Farm Restoration is fully funded by a private foundation, the Nessel Foundation. At year end 2014 the Nessel Farm Restoration Fund's negative fund balance is principally the result of an unrealized loss on investments allocated to the fund based on pooled investments.

### NOTE 4 – DEPOSITS AND INVESTMENTS

Whatcom County is authorized by RCW's 36.29.020, 39.58, 39.59.020, 39.59.030, 39.60.010, 39.60.050 and 43.84.080 to invest in the following types of securities: U.S. Treasury Obligations, U.S. Government Agency Obligations and U.S. Government Sponsored Enterprises (GSE's), Banker's Acceptances (BA's) purchased through State of Washington Financial Institutions and authorized broker/dealers, Commercial Paper, Non-negotiable Certificates of Deposit, Deposit Notes of Financial Institutions, Repurchase Agreements, Bonds of the State of Washington and any local government in the State of Washington, General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, registered warrants and notes for Whatcom County and those districts in Whatcom County for which the Treasurer is the ex-officio Treasurer (subject to compliance with RCW 39.56.030), the Washington State Local Government Investment Pool (LGIP) and as defined in RCW 39.59.030, mutual bond funds as and subject to the arbitrage provisions of Section 148 of the Federal Internal Revenue Code (if bond covenants permit investment in mutual funds).

RCW 39.58.130 authorizes the investment of municipal funds in deposits in qualified public depositories provided that the total in public deposits does not exceed the total net worth of the bank. As of December 31, 2014 the carrying amount of the county's cash demand deposits was \$147,054,016.

The County's cash and investments are subject to several types of risk, which are examined in more detail on the following pages.

**Custodial Credit Risk of Bank Deposits:** Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. Whatcom County's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

**Custodial Credit Risk of Investments:** Custodial credit risk of investments is the risk that, in the event of the failure of a counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county investment policy requires that all deliverable securities will be settled delivery versus payment (DVP), which ensures that securities are deposited at a third party, such as a safekeeping and custodian bank acting as an agent for the county. A signed safekeeping and custodial agreement(s) shall be entered into with a federally-regulated financial institution, currently BNY Mellon. The custodian institution shall hold the securities as evidenced by a safekeeping receipt. Non-negotiable CD's, public funds deposit accounts and investments in the LGIP are not handled on a DVP basis, and therefore are exempt from this process. In addition, BA's and repurchase agreements (provided a signed master repurchase agreement is on file) shall be held in the Trust safekeeping department of the financial institution in the name of Whatcom County. Certificates of deposit in the County Treasurer's name, or a copy thereof, will be delivered to and held by the Treasurer's Office.

The Local Government Investment Pool (LGIP) operates in a manner consistent with SEC Rule 2a7. Participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited, as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. There is no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. As a 2a7-like pool, investments in the LGIP are reported at amortized cost. The fair value of County shares in the LGIP is dollar for dollar equal to the value of pool shares.

As of December 31, 2014, the county had the following investments and maturities:

**Table FN3 - Investment Maturities**

Investment Type	Investments and Maturities (In Years)*		
	Fair Value	Less Than 1	1 to 5
LGIP	\$30,354,369	\$30,354,369	\$-
Money Market Savings Account	3,222	3,222	-
US Treasury	10,055,650	5,045,900	5,009,750
Federal Farm Credit Bank	33,876,626	13,007,740	20,868,886
Federal Home Loan Bank	60,791,695	12,063,620	48,728,075
Federal Home Loan Mortgage Corp	79,523,312	10,059,844	69,463,468
Federal National Mortgage Assoc.	65,169,819	5,002,200	60,167,619
General Obligation Municipal Bonds	21,673,737	7,622,370	14,051,366
Certificates of Deposit	35,147,097	25,057,498	10,089,600
<b>Total</b>	<b>\$336,595,526</b>	<b>\$108,216,762</b>	<b>\$228,378,764</b>

\*Maturity terms = Expected maturity (due to calls/ sales) rather than stated maturity date.

**Interest Rate Risk:** As a means of limiting its exposure to interest rate risk, the county diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The county coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term

to five years from the purchase date unless matched to a specific cash flow. In the case of collateralized mortgage obligations, the average expected life at time of purchase must be less than five years. The portfolio is structured so that securities mature to meet cash requirements thereby avoiding the need to sell securities prior to maturity. The County does not have a specific interest rate risk policy, however, it is cognizant of this risk and addresses it in the Whatcom County Treasurer's Office Investment Policy, of which the WCIP is in compliance with as of December 31, 2014.

**Credit Risk:** State law and county policy limit investments to those authorized by state statute. Allowable investments must have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency. The county allows 100 percent investment in US Treasuries or the LGIP. The county limits its holdings in US Government operated and sponsored entities to 90 percent of the portfolio; certificates of deposit, public funds deposit accounts and repurchase agreements to 40 percent of the portfolio; bankers acceptances to 25 percent of the portfolio; commercial paper to 25 percent of the portfolio; WA state and local government bonds to 20 percent, general obligation bonds outside the state of WA to 15 percent and deposit notes of financial institutions and reverse repurchase agreements to 10 percent of the portfolio. At December 31, 2014 the county held no investments in banker's acceptances, repurchase agreements or commercial paper.

As of year-end, the credit quality ratings of debt securities (other than US government and US government guaranteed) are as follows:

**Table FN4 - Credit Quality Distribution for Securities**

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>S &amp; P's Rating</u>	<u>Percentage of Portfolio</u>
Federal Farm Credit Bank	Aaa		10%
Federal Home Loan Bank	Aaa		18%
Federal Home Loan Mortgage Corp	Aaa		24%
Federal National Mortgage Assn	Aaa		19%
General Obligation Municipal Bonds	-	A	1%
General Obligation Municipal Bonds	Aa1		4%
General Obligation Municipal Bonds	Aaa		1%
General Obligation Municipal Bonds	Aa2		0%
US Treasury	Aaa		3%
LGIP	Not Rated		9%

**Concentration Risk:** The County allows 100 percent investment in US Treasuries and the LGIP. The County limits its holdings in US Government operated and sponsored entities to 90 percent of the portfolio and 35 percent per issuer; certificates of deposit, public funds deposit accounts and repurchase agreements to 40 percent of the portfolio and 10 percent per issuer; bankers acceptances to 25 percent of the portfolio and 10 percent per issuer; commercial paper to 25 percent of the portfolio and 5 percent per issuer; WA state and local government bonds to 20 percent, general obligation bonds outside the state of WA to 15 percent, and deposit notes of financial institutions and reverse repurchase agreements to 10 percent of the portfolio.

## EXTERNAL INVESTMENT POOL

The Whatcom County Investment Pool (WCIP) operates on an amortized cost-book value basis. The County Finance Committee performs oversight of the pool's performance. There are no legally binding guarantees for the WCIP. Authorized investments for the WCIP are the same as investments held outside of the pool and are defined in the Whatcom County Treasurer's Office Investment Policy.

Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant's account. The Whatcom County Treasurer, by law, is the treasurer of most governments within the county, including schools, fire and library districts. These districts do not have a legal option to have their investments handled by other than the County Treasurer.

The County reported investments at fair value in accordance with GASB No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools". At December 31, 2014, the fair value of investments in the WCIP was \$473,706 less than the amortized cost.

Fair value of the WCIP is reviewed by the County Finance Committee quarterly, and by the County Treasurer monthly. Fair value is determined using quoted market prices from our safekeeping agent, BNY Mellon, and with Bloomberg, an on-line financial services system.

There is no involuntary participation in the WCIP. Districts can have the County Treasurer manage their cash invested outside of the WCIP if they meet the criteria specified by WCIP policy 200. There were no investments purchased by districts not invested in the WCIP for 2014.

The Whatcom County Investment Pool's Condensed Statement of Net Position and Changes in Net Position as of December 31, 2014 are shown on the tables below.

**Table FN5 - Condensed Statement of Net Position**

Assets	\$337,054,648
Less: Liabilities	-
Net assets held in trust for pool participants	\$337,054,648
Equity of internal pool participants	\$150,286,846
Equity of external pool participants	186,767,802
Total equity	\$337,054,648

**Table FN6 - Condensed Statement of Changes in Net Position**

Net position-beginning	\$333,772,462
Net change in investments by pool participants	3,282,186
Net position-ending	\$337,054,648

## NOTE 5 – 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. The property tax calendar is shown on below:

### 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 unearned 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 is as follows:

**Table FN7 - Tax Collection Record**

Collection Year	Regular Assessed Valuation (1)	Ad Valorem Tax Levy (2)	Year of Levy Tax Collection
2014	\$23,679,456,188	\$27,579,208	98.3%
2013	23,484,411,003	27,113,497	98.2%
2012	23,531,575,782	26,693,838	97.9%
2011	23,729,066,124	26,393,783	97.8%
2010	25,077,540,196	25,592,633	96.9%
2009	24,264,823,547	24,671,502	97.3%
2008	22,199,664,766	24,171,883	97.9%

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

(2) Does not include conservation futures, county road district and flood control zone district levies.

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 101 percent of the previous year's levy, adjusted 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 2014 was \$1.1646892593 per \$1,000 on an assessed valuation of \$23.7 billion for a regular levy of \$27,579,208. This levy was used for general governmental purposes.

The Road Fund levied \$1.5783522411 per \$1,000 on an assessed value of \$11.6 billion in 2014. This resulted in a total levy of \$18,263,117 to be used for county road maintenance and construction.

## NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended December 31, 2014 was as follows:

**Table FN8 - Capital Assets Activity**

	Beginning Balance 01/01/2014	Increases	Decreases	Ending Balance 12/31/2014
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$52,538,339	\$48,510,873	\$-	\$101,049,212
Construction in progress	1,613,880	1,092,654	(16,202)	2,690,332
Intangible assets	50,400	-	-	50,400
Total capital assets, not being depreciated	54,202,619	49,603,527	(16,202)	103,789,944
Capital assets, being depreciated				
Buildings	74,397,275	2,903,179	-	77,300,454
Improvements	13,451,659	724,002	(2,446,144)	11,729,517
Equipment	37,676,994	2,688,842	(2,808,958)	37,556,878
Infrastructure	159,122,769	12,409,899	-	171,532,668
Total capital assets being depreciated	284,648,697	18,725,922	(5,255,102)	298,119,517
Less accumulated depreciation for:				
Buildings	(28,200,104)	(1,935,326)	-	(30,135,430)
Improvements	(5,361,765)	(536,784)	260,130	(5,638,419)
Equipment	(29,470,045)	(1,922,151)	2,694,593	(28,697,603)
Infrastructure	(90,655,556)	(6,528,850)	-	(97,184,406)
Total accumulated depreciation*	(153,687,470)	(10,923,111)	2,954,723	(161,655,858)
Total capital assets, being depreciated, net	130,961,227	7,802,811	(2,300,379)	136,463,659
Governmental activities capital assets, net	\$185,163,846	\$57,406,338	\$(2,316,581)	\$240,253,603
<b>Business-type activities</b>				
Capital assets, being depreciated				
Equipment	\$24,305	\$-	\$-	\$24,305
Total capital assets being depreciated	24,305	-	-	24,305
Less accumulated depreciation for:				
Equipment	(20,079)	(642)	-	(20,721)
Total accumulated depreciation	(20,079)	(642)	-	(20,721)
Total capital assets, being depreciated, net	4,226	(642)	-	3,584
Business-type activities capital assets, net	\$4,226	\$(642)	\$-	\$3,584

\* See footnote on Table FN9 for details.

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

<b>Table FN9 - Depreciation Expense</b>	
Governmental activities:	
General governments	\$1,890,857
Public safety	714,094
Utilities	114,889
Transportation	7,535,571
Natural and Economic environment	83,225
Social services	64,171
Culture & recreation	260,173
Total depreciation expense*	<u>\$10,662,980</u>
Business-type activities:	
Transportation	<u>\$642</u>
Total depreciation expense	<u>\$642</u>

\* Total depreciation expense (Table FN9) does not balance to total accumulated depreciation (Table FN8) by \$260,131 because stormwater improvements were reclassified from improvements to infrastructure.

NOTE 7 – PENSION PLANS

Substantially all Whatcom 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 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; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) PLANS 1, 2, AND 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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 defined benefit plan with a defined contribution component.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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 irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the

member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect

participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

**Table FN10 - PERS Membership**

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
<b>TOTAL</b>	<b>368,272</b>

The County covered payroll for the year ended December 31, 2014 was \$49,162,242. The County's total payroll for all employees was \$60,031,335.

## Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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, 2014, are shown on the following page.

**Table FN11 - PERS Contribution Rates**

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***

\* The employer rates include the employer administrative expense fee currently set at 0.18%

\*\* Plan 3 defined benefit portion only.

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

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-Local Government*	9.21%	9.21%	9.21%**
Employee-Local Government	12.26%	12.30%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Minimum rate.

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 PERS**

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 160,457	\$ 2,936,304	\$ 1,431,082
2013	\$ 147,723	\$ 2,590,698	\$ 1,255,038
2012	\$ 145,541	\$ 2,330,188	\$ 1,087,769

## LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 AND 2

### Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members 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.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

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 through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of 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 (FAS) is as follows:

<i><b>Table FN13 - LEOFF Plan 1 Benefit Calculation</b></i>	
<b>Term of Service</b>	<b>Percent of Final Average</b>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS 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. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of

service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest

actuarial valuation date for the plans of June 30, 2013:

**Table FN14 - LEOFF Membership**

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	<u>1,600</u>
TOTAL	29,640

### Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The County covered payroll for the year ended December 31, 2014 was \$7,011,338. The County's total payroll for all employees was \$60,031,335.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

**Table FN15 - LEOFF Contribution Rates**

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%
Employee	0.00%	8.41%

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

Both Whatcom County and the employees made the required contributions. The County's required contributions for the years ending December 31 are shown on the following page.

**Table FN16 - County Contribution to LEOFF**

	LEOFF Plan 1	LEOFF Plan 2
2014	\$ 170	\$ 361,754
2013	\$ 151	\$ 356,579
2012	\$ 149	\$ 367,447

## PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS) PLAN 2

### Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee

contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

**Table FN17 - PSERS Membership**

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to but not yet Receiving Benefits	119
Active Plan Members Vested	4,513
Terminated Plan Members Nonvested	1,383
TOTAL	<u>6,058</u>

## Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The County's covered payroll for the year ended December 31, 2014 was \$3,857,755. The County's total payroll for all employees was \$60,031,335.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

**Table FN18 - PSERS Required Contribution Rates**

Employer*	10.54%
Employee	6.36%

\* The employer rates include the employer administrative expense fee at 0.18%.

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

**Table FN19 - County Contribution to PSERS**

	PSERS Plan 2
2014	\$ 406,607
2013	\$ 341,566
2012	\$ 294,615

## NOTE 8 – 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, 2014, the amount of these liabilities was \$4,169,744. Changes in the balances of claims liabilities during 2013 and 2014 are shown on the following page.

**Table FN20 - Claims Liability Balance Changes**

	Beginning of Year Claims Liability	Claims Paid During the Year	Estimated Additional Liability Incurred	Balance at Year End
2013	\$4,087,788	\$(6,113,100)	\$6,527,655	\$4,502,343
2014	\$4,502,343	\$(5,982,075)	\$5,649,476	\$4,169,744

In 2004, Whatcom County settled a claim that requires the county to pay medical coverage for a former employee from January 2004 to the employee's 65th birthday in March of 2015. As of December 31, 2014, the estimate of the present value of the future cash payments totals \$3,269.

In 2011, Whatcom County received an Order and Notice from the Washington State Department of Labor and Industries stating the requirement to fund a pension for the spouse of a former employee. The former employee died of causes unrelated to his open worker's compensation claim with Whatcom County, however, because he was totally and permanently disabled at the time of his death, the State has determined his surviving spouse is entitled to a spouse's pension. The total amount of the pension is \$317,910. The monthly pension benefit is \$2,470 and as of December 31, 2014, the balance of the pension is \$211,701.

Whatcom County remains one of several Washington counties that are members of the Washington Counties Risk Pool ("Pool" or "WCRP"). The others include: Adams, Benton and Chelan, Clallam, Columbia, Cowlitz and Douglas, Franklin, Garfield, Grays Harbor and Island, Jefferson, Kittitas, Lewis and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla and Yakima Counties.

Clark, Kitsap, Klickitat and Whitman Counties were Pool members. Clark had its membership cancelled by the Pool's Board of Directors effective April 29, 2014. The others voluntarily terminated their memberships effective October 1st of 2010, 2002 and 2003 respectively.

**Background:** The Pool was "Created by Counties for Counties" in August 1988 as an association of member counties independent of all other associations of which the counties are members. WCRP's foundational agreement authorized its creation pursuant to Chapters 48.62 and 39.34, Revised Code of Washington ("RCW"), "to provide member counties programs of joint self-insurance, joint purchasing of insurance, and joint contracting for or hiring of personnel to provide risk management, claims handling, and administrative services."

Noteworthy is the definition of "insurer" in RCW 48.01.050 as it pertains to the application of the Washington Insurance Code (Title 48). The statutory definition reads:

"Two or more local government entities, under any provision of law, that join together and organize to form an organization for the purpose of jointly self-insuring or self-funding are not an "insurer" under this code."

WCRP is not an "insurer" and thus not an insurance company or subject to the special laws and rules that govern insurers and insurance companies. Washington's pools operate under the state's "pooling" laws and regulations, specifically Chapters 48.62 RCW and 200-100 Washington Administrative Code ("WAC"). Pools are risk-sharing entities

that initially must be approved by then annually report to and are overseen by the State Risk Manager – they are not regulated by the Office of the Insurance Commissioner. In addition, as public entities, pools are subject to annual audits by the State Auditor's Office.

The mission for the Pool as determined by the members' directors and alternate directors is to:

- Provide comprehensive and economical risk coverage;
- Reduce the frequency and severity of losses;
- Decrease costs incurred in the managing and litigation of claims.

The core values adopted by the Pool's Board of Directors include: being committed to learn, understand and respond to the member counties' insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool's Board and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

The Pool's Membership Compact, added in 2000 as an addendum to the Interlocal Agreement, constitutes a commitment to strengthen the Pool by helping member counties implement and/or enhance their local risk management efforts to reduce losses and support the best management of the Pool and its resources. The Compact obligates the member counties to support these goals through three major elements – membership involvement, risk control practices, and a targeted risk management program(s).

New members may be asked to pay modest fees to cover the costs to analyze their loss data and risk profiles. In recent years, new members have only been required to contribute their proportional shares of the entry year's assessments. New members contract under the Interlocal Agreement to remain in the Pool for at least five years. Following its initial 60-month term, any county may terminate its membership at the conclusion of any Pool fiscal year, provided the county timely files the required advance written notice. Otherwise, the Interlocal Agreement and membership automatically renews for another year. Even after termination, former members remain responsible for reassessments by the Pool for the members' proportional shares of any unresolved, unreported, and in-process claims for the periods that the former members were signatories to the Interlocal Agreement.

**Joint Self-Insurance Liability Program ("JSILP"):** The Washington Counties Risk Pool has since its beginning administered the membership's occurrence-based, jointly purchased and/or jointly self-insured liability coverage for bodily injury, personal injury, property damage, errors and omissions, and advertising injury caused by a covered occurrence during an eligible period and occurring anywhere in the world. Total coverage limits per occurrence have grown from the \$1 million existing during the Pool's initial two months to \$5 million, then to \$10 million and onto \$15 million before reaching the \$20 million limit that has existed since October 2003. (Note: Additional \$5 million limits were available as individual county-by-county options during many recent years, including the 2013-14 and 2014-15 coverage years.)

Since the 2003-04 coverage year, the initial \$10 million per occurrence, subject to the member-reimbursed deductible, has been provided as jointly self-insured coverage that is “risk shared” amongst the membership. Each member selects its occurrence deductible amount for the ensuing coverage year from these options: \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000.

The Board of Directors has decided for years now to acquire reinsurance as further protection from larger losses, direct protection for the Pool and indirect for the member counties due to the contingent liabilities they would otherwise incur from risk-sharing those losses. The reinsurance agreements are written with self-insured retentions (“SIRs”) equal to the greater of the deductible for the member with the claim or \$100,000. More recent years’ reinsurance programs have included “corridor deductibles” with aggregated stop losses which have the effect of increasing the Pool’s SIR. For 2013-14, there were two (2) such corridors – the first raising the occurrence SIR to \$1 million, but with an aggregated stop loss of \$2.975 million (later reduced with Clark County’s termination to \$2,900,625), and the second increasing the SIR further, to \$2 million, but with an aggregated stop loss of \$650,000 (also reduced with Clark County’s departure to \$596,875). Other reinsurance agreements respond to the remaining \$8 million – one for the \$3 million excess of the \$2 million SIR, and another for the \$5 million excess of \$5 million.

The remaining \$10 million (or \$15 million) of JSILP occurrence coverage has been acquired as “following form” excess insurance. And while there are no aggregate limits to the payments that the Pool makes for any member county or for all member counties, the reinsurance agreements contain aggregate limits for the maximum annual reimbursements to the Pool of \$40 million (lowest reinsured layer), \$20 million, (second layer), \$30 million (third layer) and \$50 million (final reinsured layer).

584 third-party liability claims (and lawsuits) were reported by member counties to the Pool during the 2013-14 coverage year, a 5.5 percent reduction in year-over-year filings and a continuation of the decline in filings experienced the past several years. The new filings raised the to-date (October 1988 – September 2014) total to 19,820. Yet only 359 remained classified as ‘open’ at year-end. Projections from the required independent actuary retained by the Pool’s Board of Directors suggest another 283 cases from all years as being incurred but not yet reported (“IBNR”) and raise the Pool’s estimated ultimate case count (as of September 30, 2014) to 20,103. Total incurred losses (payments made plus estimates for open claims) increased \$14.6 million during the year to \$264.6 million. And while that represents a significant increase from recent years’ corresponding amounts, it is less than the several earlier years’ amounts of \$16.0M (2010-11), \$17.8M (2009-10), and the \$20.8M (average for 2006-07 through 2008-09).

Claims reserves for the JSILP coverage are determined annually, and the actuary’s estimates of net reserves as of September 30, 2014 totaled \$14.68 million, a modest year-over-year increase of \$0.06 million (0.4 percent), and included \$2.69 million for losses in the basic SIR, \$10.84 million for the increased SIRs from the “corridor” programs, \$0.13 million for losses in the quota-shared (10 percent) upper reinsured layer retained by the Pool during 2012-13, and \$1.02 million for unallocated loss adjustment expenses (ULAE). NOTE: Estimates for gross reserves declined \$1.10 million (3.3 percent) to \$32.67 million, with \$17.99 million ceded to the commercial insurers.

**Washington Counties Property Program (“WCPP”):** The Board of Directors agreed to add property insurance, beginning with the 2005-06 coverage year, as a county-by-county option. This optional coverage is jointly-purchased

from a consortium of higher rated commercial carriers. Both participation and the total values of covered properties have nearly doubled since the WCPP was added. Twenty six counties participated in the WCPP during 2013-14 with covered properties totaling in excess of \$2.7 billion.

Losses are covered under the WCPP to the participating counties' buildings and contents, vehicles, mobile/contractors equipment, EDP and communication equipment, etc. that have been scheduled. The WCPP includes 'All Other Perils ("AOP")' coverage limits of \$500 million per occurrence as well as Flood and Earthquake (catastrophe) coverages with separate occurrence limits, each being \$200 million. There are no AOP annual aggregate limits, but the flood and earthquake coverages include annual aggregate limits of \$200 million each. Coverage also includes sublimited items, e.g. Equipment Breakdown / Boiler & Machinery (\$100 million), Special Flood Hazard Areas (\$25 million), and endorsements for LEED (Green Construction) Upgrades, optional Reproduction Coverage for historic structures, and Terrorism (\$20 million).

AOP occurrence deductibles, which each participating county confirms each year and is solely responsible for paying, range between \$5,000 and \$50,000. Higher deductibles apply to losses resulting from catastrophe-type losses.

**Cyber Risk and Other Coverages:** Beginning this coverage year (2014-15), the Board agreed to add jointly-purchased cyber risk and security coverage from a higher-rated commercial insurer.

**Other Insurances:** Several member counties use the producer (broker) retained by the Board on behalf of the Pool to secure other (specialty) coverages. Examples include public officials bonds and insurance coverages for crime (and fidelity), special events/concessionaires, UST and other environmental hazards, as well as airport, ferry, and railroad operations.

**Governance / Oversight:** The Pool is governed by a board of directors that consists of one director (and at least one alternate director) representing each member county and appointed by the county's legislative authority. The Board of Directors, which includes both elected and appointed officials, meets three times each year with the Annual Meeting of the Pool being held mid-summer. The Board a) determines the extent of risk-sharing from the 3rd-party self-insured liability coverage by approving the JSILP Coverage Form, b) selects the reinsurance(s) to acquire and the excess insurance(s) to jointly-purchase or offer for "member option" purchase, c) approves the Pool's annual operating budget(s) and work program(s), and d) approves the formulas used for computing members' deposit assessments and, when necessary, reassessments.

Ongoing oversight of the Pool is furnished by an 11-person executive committee that is elected by and from the WCRP Board for staggered, 3-year terms. The membership of the 2014-15 committee averages more than nine years with the Pool. The committee meets throughout the year and a) approves all disbursements and reviews the Pool's financial health, b) approves case settlements exceeding the applicable member's deductible by at least \$50,000, c) reviews all claims with incurred loss estimates exceeding \$100,000, and d) evaluates the Pool's operations and program deliverables, and the Executive Director's performance. Committee members are expected to participate in the Board's standing committees (finance, personnel, risk management, and underwriting) which develop or review/revise proposals for and/or recommendations to the association's policies and its coverages for the Board to consider

and act upon.

**Staffing and Support Teams:** Six of the Pool's 11-person staff handle and/or manage the several hundred liability cases filed annually upon the member counties and submitted for risk-shared coverage consideration. This includes determining coverage, establishing reserves for covered events by estimating future payments for the losses and their related claims adjustment expenses. The claims staff have 115 years of combined claims handling experience.

The remaining staff support the Pool's administrative needs and provide member services that include, but are not limited to assessing the memberships' risks, coordinating trainings, performing compliance audits, and developing and presenting/promoting coverages.

There are also the professionals from some of the most respected organizations worldwide which are retained by the Board to address specific needs of the Pool – PricewaterhouseCoopers, LLP furnishes independent actuarial services; Strategic Claims Direction, LLC conducts independent claims auditing; Arthur J. Gallagher Risk Management Services, Inc. provides insurance producer (broker) and advanced loss control services; and J. William Ashbaugh of Hackett Beecher & Hart serves as coverage counsel. NOTE: Claims audits are occasionally performed by commercial insurers. The numerous attorneys retained and assigned to defend covered claims as well as the State Risk Manager and State Auditor's Offices cannot be overlooked.

**Financial Summary:** During fiscal 2014, WCRP assets grew 1 percent (\$0.48 million) to \$47.41 million while its liabilities decreased 7 percent (\$2.17 million) to \$28.04 million. That produced a (assets to liabilities) ratio of 1.69:1. For comparison, the fiscal 2004 ratio was 0.94:1 which, except for the members' reassessments receivables ("retroactive assessments") that were included, would have been 0.74:1.

Net Position, which is frequently referred to as "Net Assets" or "Owners' Equity", improved 16 percent (\$2.65 million) to \$19.37 million as of September 30, 2014. And since 2004 ended "negative" \$0.69 million, Net Position improved by more than \$20 million over the course of the past decade. \$1.07 million of Net Position were held in Capital Assets (net of debt), leaving \$18.30 million to both satisfy the State Risk Manager's solvency provisions (WAC 200.100.03001(3)) and substantially fulfill WCRP's own sufficiency requirements in section D.2 of the Board of Directors' Underwriting Policy.

Operating Income of \$2.38 million was realized in fiscal 2014. And though a 37 percent decrease from 2013, the 2014 amount was the third greatest in recent years and 55 percent more than the annual average from 2004 through 2013. Revenues grew \$1.05 million (7 percent) while Expenses increased \$2.42 million (22 percent), primarily due to the \$2.54 million in independent actuary adjustments to the Pool's claims-related reserves and \$0.58 million in premium increases for the reinsurance and excess liability and property insurance policies acquired.

**Contingent Liability:** The Pool is a cooperative program with joint liability amongst its participating members. Contingent liabilities occur when assets are not sufficient to cover liabilities. Deficits of the Pool resulting from any fiscal year are financed by reassessments (aka retroactive assessments) of the deficient year's membership in proportion with the initially levied and collected deposit assessments.

The Pool's reassessments receivable balance as of December 31, 2014 was ZERO (\$0). As such, there are no known contingent liabilities at that time for disclosure by the member counties.

## NOTE 9 – LONG-TERM DEBT AND LEASES

### GENERAL OBLIGATION BONDS

The county issued general obligation bonds in the amount of \$6,135,000 in 2010 to refinance the 1997 and 1998 issue of bonds and to fund safety improvements to the County Jail. Interest rate on these bonds is fixed at 1.75 percent - 5.25 percent (depending on maturity date) with final maturity in 2030. Repayment will be made from Real Estate Excise Tax I Fund, Whatcom County Jail Fund and Administrative Services Fund revenues. As of December 31, 2014, outstanding bonds totaled \$3,350,000.

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

**Table FN21 - GO Bonds**

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2015	\$325,000	\$146,613
2016	330,000	133,612
2017	355,000	120,413
2018	355,000	110,825
2019	140,000	98,725
2020	145,000	94,525
2021 - 2025	795,000	360,875
2026 - 2030	905,000	145,687
Total	\$3,350,000	\$1,211,275

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, 2014, the County had \$1,562 available in debt service funds to service the general bonded debt.

### CHANGES IN LONG-TERM DEBT

The changes that occurred in long-term liabilities, during the year ended December 31, 2014, are shown on the following page.

**Table FN22 - Changes in Long-Term Debt**

	January 1	Additions	Reductions	December 31	Due Within One Year
<b>Governmental Activities</b>					
Bonds payable					
General obligation debt	\$3,660,000	\$-	\$310,000	\$3,350,000	\$325,000
Discounts/ premiums	158,596	-	27,658	130,938	-
Total bonds payable	3,818,596	-	337,658	3,480,938	325,000
Capital leases	441,338	7,809	137,872	311,275	129,274
Claims	4,502,343	5,649,476	5,982,075	4,169,744	3,987,682
OPEB obligations	1,902,009	535,484	-	2,437,493	-
Compensated absences	7,315,932	6,550,929	6,445,721	7,421,140	6,639,093
Landfill post-closure costs	250,000	-	-	250,000	-
Total Governmental Activities	\$18,230,218	\$12,743,698	\$12,903,326	\$18,070,590	\$11,081,049
<b>Business-Type Activities</b>					
Compensated absences	\$130,826	\$122,623	\$105,737	\$147,712	\$108,908
Total Business-Type Activities	\$130,826	\$122,623	\$105,737	\$147,712	\$108,908

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities shown on above.

## COMPENSATED ABSENCES

For governmental activities, the compensated absences liability will be paid from the General Fund, County Road, Election Reserve, Whatcom County Jail, Chemical Dependency/Mental Health, Solid Waste, Victim Witness Assistance, and Emergency Management special revenue funds and Equipment Rental and Revolving and Administrative Services internal service funds.

## OPERATING LEASES

The County leases a building from the Port of Bellingham to provide a facility for the emergency operations center. Total cost for the lease was \$67,623 for the year ended December 31, 2014. The future minimum lease payments for this lease are as follows:

**Table FN23 - Operating Leases**

Year Ending December 31	Amount
2015	\$67,106
2016	67,106
2017	* 69,119
2018	* 71,193
2019	* 73,329
2020-2023	* 315,986
Total	\$663,839

\*Actual lease payments will be adjusted by the Consumer Price Index. For the future minimum lease payments, a 3% increase per year was used.

## CAPITAL LEASES

Whatcom County has entered into a lease agreement for copiers that qualifies as a capital lease for accounting purposes. The assets acquired through capital leases are as follows:

**Table FN24 - Capital Lease Assets**

	Governmental Activities
Asset:	
Machinery and equipment	\$698,203
Less: Accumulated depreciation	(386,928)
Total	<u>\$311,275</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, are shown as follows:

**Table FN25 - Future Minimum Lease Obligations**

	Governmental Activities
2015	\$133,114
2016	103,003
2017	67,338
2018	15,742
2019	752
Total Minimum Lease Payments	<u>319,949</u>
Less: Interest	<u>8,674</u>
Present Value of Minimum Lease Payments	<u>\$311,275</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 FN26 - Long-Term Debt Capacity**

Purpose of Indebtedness	Remaining Capacity
General Government (No vote required)	\$349,819,279
General Government (With 3/5 majority vote)	\$592,860,479

## NOTE 10 – 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 8) 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 11 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The County has active capital projects as of December 31, 2014. The projects include: Sheriff's record management system, new jail building and telecommunications system replacement.

Effective January 1, 2014 Whatcom County entered into interlocal agreements with the City of Bellingham and Whatcom County Fire Protection District #7 to provide county wide emergency medical advanced life support services. These agreements replace an expired interlocal agreement with the City of Bellingham. The new interlocal agreements are for the period January 1, 2014 through December 31, 2016. The agreements automatically extend for one year each January 1st provided no parties to the agreements provide a notice of termination. Payments for services for 2014 to the City of Bellingham and Whatcom County Fire Protection District #7 totaled \$5,602,997 and \$970,961 respectively. Whatcom County's agreement with the City of Bellingham provides for payments for services of \$4,792,189 in 2015 and \$4,976,678 in 2016. Whatcom County's agreement with Whatcom County Fire Protection District #7 provides for payments for services of \$1,502,675 in 2015 and \$1,555,269 in 2016.

These services are funded by a combination of sales tax, user fees, and transfers from the Whatcom County General Fund.

## NOTE 12 – INTERFUND BALANCES AND TRANSFERS

### INTERFUND BALANCES

Interfund receivables and payables are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, and are similarly treated when they involve other funds of the county. At December 31, 2014, interfund receivable and interfund payable balances are as follows:

**Table FN27 - Interfund Receivable/Payable**

Due To	Due From				Total
	General Fund	County Road	Internal Service	All Others	
General Fund	\$-	\$-	\$12,814	\$158,416	\$171,230
County Road	-	-	40,329	128,213	168,542
Internal Service	26,077	123,633	-	83,462	233,172
All Others	116,398	16,279	-	456,906	589,583
Total	\$142,475	\$139,912	\$53,143	\$826,997	\$1,162,527

The Interfund balances resulted from the time lag between the dates when interfund goods and services were provided or reimbursable expenditures incurred and when interfund payments were made.

Interfund loans outstanding as of December 31, 2014 were as follows:

**Table FN28 - Interfund Loans Receivable/Payable**

<b>Interfund Loan Receivable</b>	<b>Interfund Loan Payable</b>		
	General Fund	All Others	Total
County Road	\$-	\$3,000,000	\$3,000,000
Internal Service	1,673,344	-	1,673,344
All Others	-	100,000	100,000
<b>Total</b>	<b>\$1,673,344</b>	<b>\$3,100,000</b>	<b>\$4,773,344</b>

## 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, 2014, are shown below:

**Table FN29 - Interfund Transfers**

<b>Transfer To</b>	<b>Transfers From</b>					
	General Fund	County Road	Public Utilities Improvement	Internal Service	All Others	<b>Total</b>
General Fund	\$25,425	\$-	\$-	\$182,894	\$3,218,663	\$3,426,982
County Road	50,000	-	-	-	-	50,000
Internal Service	263,140	53,980	-	-	89,763	406,883
All Others	10,015,992	3,389,778	127,075	1,900,000	2,815,722	18,248,567
<b>Total</b>	<b>\$10,354,557</b>	<b>\$3,443,758</b>	<b>\$127,075</b>	<b>\$2,082,894</b>	<b>\$6,124,148</b>	<b>\$22,132,432</b>

## NOTE 13 – 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 \$721,320 as its share of operations in 2014. Whatcom County did not have an equity interest in What-Comm in 2014. Financial statements for What-Comm Communications Center can be obtained from the City of Bellingham, 210 Lottie Street, Bellingham, Washington 98225.

## NOTE 14 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

### PLAN DESCRIPTION

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical, dental and vision care for members of the Law Enforcement Officers and Fire Fighters (LEOFF) retirement system hired on or before September 30, 1977 under a defined benefit healthcare plan administered by the County. Medical coverage for eligible pre-Medicare retirees is provided by one of the County's employee medical insurance programs. There is currently 1 active LEOFF I member and 19 retired LEOFF I members who are receiving benefits. Financial reporting for the LEOFF retiree healthcare plan is included in the County's Comprehensive Annual Financial Report.

### FUNDING POLICY

Funding for LEOFF retiree healthcare costs is provided entirely by the County as required by RCW. The County's contributions are financed on a pay-as-you-go basis.

### ANNUAL OPEB COST AND NET OPEB OBLIGATION

Whatcom County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of fifteen years as of January 1, 2013. The table below shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$2,437,493 is included as a noncurrent liability on the Statement of Net Position.

The County's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2014 are shown on the following page.

**Table FN30 - Annual OPEB Cost**

	12/31/14
<b>Annual Required Contribution:</b>	
Normal Cost at Year End	\$11,810
Amortization of UAAL*	632,873
Annual Required Contribution	\$644,683
<b>Net OPEB Obligation:</b>	
Annual Required Contribution	\$644,683
Interest on Net OPEB Obligation	142,835
Amortization of Net OPEB Obligation	(150,099)
Annual OPEB Cost	637,419
Contributions Made	(101,935)
Increase in Net OPEB Obligation	535,484
Net OPEB Obligation-Beginning of Year	1,902,009
Net OPEB Obligation-End of Year	\$2,437,493

\* Unfunded Actuarial Accrued Liability (UAAL)

**Table FN31 - Net OPEB Obligation**

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/12	\$583,843	48.3%	\$1,668,862
12/31/13	\$561,338	58.5%	\$1,902,009
12/31/14	\$637,419	16.0%	\$2,437,493

## FUNDED STATUS AND FUNDING PROGRESS

As of January 1, 2013, the most recent actuarial valuation date, the plan was 0 percent funded. The accrued liability for benefits was \$7,036,527 and the actuarial value of the assets was 0 percent resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$7,036,527.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## **METHOD AND ASSUMPTIONS**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The following assumptions were made:

A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF I rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF I medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The actuarial accrued liability and net OPEB obligation are amortized on an open basis as a level dollar over 15 years.

## **NOTE 15 – POSTCLOSURE CARE COST**

Whatcom County owns four closed solid waste landfills. These are Birch-Bay Lynden, Y Road, and Pt. Roberts, all closed in the 1980's and Cedarville, which was closed in 1990 (Phase I), with final closure in 1993 under WAC 173-304. Whatcom County is required by the Department of Ecology to perform post-closure monitoring of Cedarville for a minimum of 20 years or until the landfill meets certain criteria. The County complies with this requirement through several permits which require monitoring of ground water, gas and leachate production. A new leachate management system was constructed in 2012 but no further capital improvements are anticipated at this time. The typical annual operating budget for Cedarville is expected to be approximately \$28,000 for ground water testing and maintenance. These costs are funded by solid waste excise taxes. A reserve of \$250,000 was established in the Solid Waste Fund in 1992 to cover unforeseen post-closure care costs. The actual cost of post-closure care may change due to inflation or regulations.

## **NOTE 16 – SPECIAL ITEMS**

In 2014, Washington State Department of Natural Resources transferred to Whatcom County 8,844 acres of land and timber for public park purposes. The fair value of the land was estimated to be \$44,220,000. On the government-wide Statement of Activities, a special item was reported under governmental activities for \$44,220,000.

## **NOTE 17 – SUBSEQUENT EVENTS**

In 2006 Whatcom County entered into an interlocal agreement with the City of Bellingham to provide county wide

emergency medical services. This agreement continued until December 31, 2013. The interlocal agreement provided that if the City of Bellingham no longer contracts with the county for provision of emergency medical services that City of Bellingham's Medic One net assets and liabilities would be divided equally between the city and the county. The city and the county are working on an agreement to divide Medic One assets and liabilities; however the agreement was not complete at year end. Whatcom County anticipates receiving assets with approximate value of \$500,000.

Required Supplemental Information  
Schedule of Revenues, Expenditures and Changes in Fund  
Balance - Budget and Actual  
General Fund  
Year Ended December 31, 2014



	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$40,516,215	\$40,841,215	\$41,246,226	\$405,011
Licenses and permits	1,976,150	2,160,900	2,276,621	115,721
Intergovernmental	14,066,740	16,049,679	14,854,804	(1,194,875)
Charges for service	7,813,266	8,327,738	8,007,422	(320,316)
Fines and penalties	2,841,400	2,711,400	2,379,101	(332,299)
Miscellaneous	3,126,437	2,982,437	3,707,354	724,917
<b>Total revenues</b>	<u>70,340,208</u>	<u>73,073,369</u>	<u>72,471,528</u>	<u>(601,841)</u>
<b>Expenditures</b>				
Current:				
General government	25,691,546	26,112,968	24,198,258	1,914,710
Public safety	24,198,553	24,485,416	22,386,188	2,099,228
Utilities	500	500	-	500
Natural and economic environment	1,948,385	2,386,993	1,987,533	399,460
Social services	12,708,720	14,129,205	12,935,197	1,194,008
Culture and recreation	4,091,971	4,184,225	3,537,036	647,189
Capital outlay	-	275,681	28,068	247,613
Debt service:				
Interest	26,926	57,047	17,903	39,144
<b>Total expenditures</b>	<u>68,666,601</u>	<u>71,632,035</u>	<u>65,090,183</u>	<u>6,541,852</u>
Excess (deficiency) of revenues over expenditures	<u>1,673,607</u>	<u>1,441,334</u>	<u>7,381,345</u>	<u>5,940,011</u>
<b>Other financing sources (uses)</b>				
Sales of capital assets	379,000	385,258	222,931	(162,327)
Transfers in	3,278,982	3,502,829	3,426,982	(75,847)
Transfers out	(6,924,661)	(10,329,858)	(10,354,557)	(24,699)
Capital lease proceeds	-	-	8,840	8,840
<b>Total other financing sources (uses)</b>	<u>(3,266,679)</u>	<u>(6,441,771)</u>	<u>(6,695,804)</u>	<u>(254,033)</u>
Net change in fund balances	<u>(1,593,072)</u>	<u>(5,000,437)</u>	<u>685,541</u>	<u>5,685,978</u>
Fund balances-beginning	-	-	12,351,960	12,351,960
<b>Fund balances-ending</b>	<u>\$(1,593,072)</u>	<u>\$(5,000,437)</u>	<u>\$13,037,501</u>	<u>\$18,037,938</u>

Required Supplemental Information  
Schedule of Revenues, Expenditures and Changes in Fund  
Balance - Budget and Actual  
County Road Fund  
Year Ended December 31, 2014

**Whatcom County**  
W A S H I N G T O N

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$17,135,000	\$17,135,000	\$17,702,546	\$567,546
Licenses and permits	100,000	100,000	142,867	42,867
Intergovernmental	4,906,342	4,938,652	5,032,633	93,981
Charges for service	1,323,977	1,323,977	1,215,297	(108,680)
Miscellaneous	14,000	14,000	262,974	248,974
<b>Total revenues</b>	<u>23,479,319</u>	<u>23,511,629</u>	<u>24,356,317</u>	<u>844,688</u>
<b>Expenditures</b>				
Current:				
General government	322,288	353,526	477,156	(123,630)
Transportation	19,774,566	19,227,163	16,613,988	2,613,175
Capital outlay	10,000	2,224,523	1,390,898	833,625
<b>Total expenditures</b>	<u>20,106,854</u>	<u>21,805,212</u>	<u>18,482,042</u>	<u>3,323,170</u>
Excess (deficiency) of revenues over expenditures	<u>3,372,465</u>	<u>1,706,417</u>	<u>5,874,275</u>	<u>4,167,858</u>
<b>Other financing sources (uses)</b>				
Sales of capital assets	450,000	450,000	270,564	(179,436)
Transfers in	51,082	51,082	50,000	(1,082)
Transfers out	(1,147,024)	(3,449,300)	(3,443,758)	5,542
<b>Total other financing sources (uses)</b>	<u>(645,942)</u>	<u>(2,948,218)</u>	<u>(3,123,194)</u>	<u>(174,976)</u>
Net change in fund balances	<u>2,726,523</u>	<u>(1,241,801)</u>	<u>2,751,081</u>	<u>3,992,882</u>
Fund balances-beginning	-	-	25,000,915	25,000,915
<b>Fund balances-ending</b>	<u>\$2,726,523</u>	<u>\$(1,241,801)</u>	<u>\$27,751,996</u>	<u>\$28,993,797</u>

**A. BUDGETARY BASIS**

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.

**B. MATERIAL VIOLATIONS**

There were no material violations of finance-related legal or contractual provisions in the general fund and special revenue funds. In addition, these fund's expenditures did not exceed legal appropriation for 2014.

Required Supplemental Information  
LEOFF I Retiree Medical Benefits  
Schedule of Funding Progress  
Year Ended December 31, 2014



Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/12	\$-	\$5,515,156	\$5,515,156	0%	\$94,023	5865.75%
12/31/13	\$-	\$7,036,527	\$7,036,527	0%	\$98,593	7136.94%
12/31/14	\$-	\$7,036,527	\$7,036,527	0%	\$104,976	6702.99%

Federal Agency Name / Pass-Through Agency Name	Cluster Title / Federal Program Name	Federal CFDA #	Other Identification Number	Expenditures from Pass-Through Awards	Expenditures from Direct Awards	Total Expenditures	Foot-note Ref.
<b>U.S. DEPARTMENT OF AGRICULTURE</b>							
<b>Child Nutrition Cluster</b>							
U.S. Department of Agriculture Food & Nutrition Service / WA Superintendent of Public Instruction	National School Lunch Program	10.555	37-501-6858	24,801		24,801	2
U.S. Department of Agriculture Food & Nutrition Service / WA Department of Health	Summer Food Service Program for Children	10.559	20130414	1,136		1,136	2, 8
<b>Forest Service Schools and Roads Cluster</b>							
U.S. Department of Agriculture Forest Service / WA State Treasurer	Schools and Roads - Grants to States	10.665	RCW 36.33.110RCW 28A.520.020	468,756		468,756	2
U.S. Department of Agriculture Forest Service / WA State Treasurer	Schools and Roads - Grants to States	10.665	10PA-11060500-049	88,638		88,638	2
U.S. Department of Agriculture Farm Service Agency	Conservation Reserve Program	10.665		557,394		557,394	
	<b>Total CFDA Number</b>	<b>10.669</b>	2007-0186		2,122	2,122	2
U.S. Department of Agriculture Food & Nutrition Service / WA Department of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C16907	372,344		372,344	2, 7
U.S. Department of Agriculture Food & Nutrition Service / WA Department of Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C16907	19,072		19,072	2, 7
	<b>Total CFDA Number</b>	<b>10.557</b>		391,416		391,416	
U.S. Department of Agriculture Food & Nutrition Service / WA Department of Health	WIC Farmers' Market Nutrition Program (FMNP)	10.572	C16907	330		330	2, 7
U.S. Department of Agriculture Natural Resources Conservation Service	Farm and Ranch Lands Protection Program	10.913	73-0546-12-003		67,500	67,500	2
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>				<b>975,077</b>	<b>69,622</b>	<b>1,044,699</b>	
<b>U.S. DEPARTMENT OF DEFENSE</b>							
U.S. Department of Defense Federal Voting Assistance Program	Electronic Absentee Systems for Elections	12.217	H88210-13-1-0011	117,944		117,944	6
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>							
<b>CDBG - State-Administered CDBG Cluster</b>							
U.S. Department of Housing & Urban Development Office of Community Planning Development / Washington State Department of Commerce	Community Development Block Grants / State's program and Non-Entitlement Grants in Hawaii	14.228	13-65400-031	702,251		702,251	8
U.S. Department of Housing & Urban Development Office of Community Planning Development / Washington State Department of Commerce	Community Development Block Grants / State's program and Non-Entitlement Grants in Hawaii	14.228	13-65400-015	55,618		55,618	8
U.S. Department of Housing & Urban Development Office of Community Planning Development / Washington State Department of Commerce	Community Development Block Grants / State's program and Non-Entitlement Grants in Hawaii	14.228	14-65400-015	60,083		60,083	8
	<b>Total CFDA Number</b>	<b>14.228</b>		817,952		817,952	
U.S. Department of Housing & Urban Development Office of Community Planning Development / Washington State Department of Commerce	Emergency Solutions Grant Program	14.231	14-46107-012	134,918		134,918	8
<b>TOTAL DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>				<b>952,870</b>		<b>952,870</b>	
<b>U.S. DEPARTMENT OF JUSTICE</b>							
<b>JAG Program Cluster</b>							
U.S. Department of Justice Bureau of Justice Assistance / WA St Department of Commerce	Byrne Memorial Justice Assistance Grant Program	16.738	M13-31440-017	35,256		35,256	2
U.S. Department of Justice Bureau of Justice Assistance / WA St Department of Commerce	Byrne Memorial Justice Assistance Grant Program	16.738	M13-31440-017	43,979		43,979	
U.S. Department of Justice Bureau of Justice Assistance / WA St Department of Commerce	Byrne Memorial Justice Assistance Grant Program	16.738	M13-31440-017	34,995		34,995	
U.S. Department of Justice Bureau of Justice Assistance / WA St Department of Commerce	Byrne Memorial Justice Assistance Grant Program	16.738	COB#2013-0439	542		542	
	<b>Total CFDA Number</b>	<b>16.738</b>		114,772		114,772	

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2014

Federal Agency Name / Pass-Through Agency Name	Cluster Title / Federal Program Name	Federal CFDA #	Other Identification Number	Expenditures from Pass-Through Awards	Expenditures from Direct Awards	Total Expenditures	Foot-note Ref.
U.S. Department of Justice / WA State Patrol	Domestic Cannabis Eradication / Suppression	16.000	C141453FED	1,833	1,833	1,833	2
U.S. Department of Justice Office of Juvenile Justice & Delinquency Prevention / WA State DSHS	Juvenile Accountability Block Grants	16.523	2012-JB-FX-0039	7,000	7,000	7,000	2, 10
U.S. Department of Justice Office of Juvenile Justice & Delinquency Prevention / WA State DSHS	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	I-501-00212	1,738	1,738	1,738	2
U.S. Department of Justice Violence Against Women Office / WA State CTED / Local DVSAS	Violence Against Women Formula Grants	16.588	2013-WF-AX-0055	6,493	6,493	6,493	2
U.S. Department of Justice, Bureau of Justice Assistance	State Criminal Alien Assistance Program	16.606	2011-H2454-WA-AP	17,030	17,030	17,030	2
<b>TOTAL DEPARTMENT OF JUSTICE</b>				<b>131,836</b>	<b>17,030</b>	<b>148,866</b>	
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>							
<b>Highway Planning and Construction Cluster</b>							
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 7784	512,053	512,053	512,053	2, 9
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 7344	2,568,887	2,568,887	2,568,887	2
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 5235	2,880,297	2,880,297	2,880,297	2, 9
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 7443	658,070	658,070	658,070	2
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 8375	106,123	106,123	106,123	2
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA8055	67,252	67,252	67,252	2
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 7416	26,338	26,338	26,338	2
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 7434	4,157	4,157	4,157	2
U.S. Department of Transportation Federal Highway Administration / WA State Department of Transportation	Highway Planning and Construction	20.205	LA 8258	49,278	49,278	49,278	2, 9
<b>Total CFDA Number</b>				<b>6,872,455</b>	<b>6,872,455</b>	<b>6,872,455</b>	
<b>Highway Safety Cluster</b>							
U.S. Department of Transportation National Highway Traffic Safety Administration / WA Assoc Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	MOU 10/9/13	4,793	4,793	4,793	2
U.S. Department of Transportation National Highway Traffic Safety Administration / WA Traffic Safety Commission	State and Community Highway Safety	20.600	Award 2/7/14	5,600	5,600	5,600	2
<b>Total CFDA Number</b>				<b>10,393</b>	<b>10,393</b>	<b>10,393</b>	
U.S. Department of Transportation National Highway Traffic Safety Administration / WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	MOU 10/9/13	1,319	1,319	1,319	2
U.S. Department of Transportation National Highway Traffic Safety Administration / WA Traffic Safety Commission	Occupant Protection Incentive Grant	20.602	MOU 10/9/13	1,459	1,459	1,459	2
<b>TOTAL DEPARTMENT OF TRANSPORTATION</b>				<b>6,885,626</b>	<b>6,885,626</b>	<b>6,885,626</b>	
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>							
Environmental Protection Agency, Region 10 / Wa State Department of Commerce	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	12-63401-008	57,816	57,816	57,816	2
Environmental Protection Agency, Region 10 / WA State Department of Health	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	C16907	12,910	12,910	12,910	2, 7
Environmental Protection Agency, Region 10 / WA State Department of Health	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	C16907	3,916	3,916	3,916	2, 7
Environmental Protection Agency, Region 10 / WA State Department of Health	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	N19934	79,242	79,242	79,242	2
<b>Total CFDA Number</b>				<b>153,884</b>	<b>153,884</b>	<b>153,884</b>	

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2014

Federal Agency Name / Pass-Through Agency Name	Cluster Title / Federal Program Name	Federal CFDA #	Other Identification Number	Expenditures from Pass-Through Awards	Expenditures from Direct Awards	Total Expenditures	Foot-note Ref.
Environmental Protection Agency, Region 10 / WA State Department of Health	National Estuary Program	66.456	G1400325	1,113	1,113	2	
Environmental Protection Agency, Region 10 / WA State Department of Health	National Estuary Program	66.456	G1400325	43,025	43,025		
	Total CFDA Number	<b>66.456</b>		<b>44,138</b>	<b>44,138</b>		
U.S. Environmental Protection Agency Office of Water / WA State Dept of Health (DOH)	Capitalization Grants for Drinking Water State Revolving Funds	<b>66.468</b>	C16907	<b>26,800</b>	<b>26,800</b>		
	<b>TOTAL ENVIRONMENTAL PROTECTION AGENCY</b>			<b>224,822</b>	<b>224,822</b>		
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>							
<b><u>Medicaid Cluster</u></b>							
U.S. Department of Health & Human Services Centers for Medicare & Medicaid Services / WA State Healthcare Authority	Medical Assistance Program	93.778	4735CS-63	97,139	97,139	2,9	
U.S. Department of Health & Human Services Centers for Medicare & Medicaid Services / WA State Healthcare Authority	Medical Assistance Program	93.778	4735CS-63	8,983	8,983	2,9	
	<b>Total CFDA Number</b>	<b>93.778</b>		<b>106,122</b>	<b>106,122</b>		
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	Public Health Emergency Preparedness	<b>93.069</b>	C16907	<b>83,114</b>	<b>83,114</b>	2,7	
Department of Health and Human Services Substance Abuse and Mental Health Services Administration / WA State DSHS Division of Behavioral Health	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	<b>93.243</b>	1363-90067	<b>85,530</b>	<b>85,530</b>		
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	Immunization Cooperative Agreements	93.268	C16907	26,518	26,518	2,7	
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	Immunization Cooperative Agreements	93.268	C16907	7,278	7,278	2,7	
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	Immunization Cooperative Agreements	93.268	C16907	11,792	11,792	7	
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	Immunization Cooperative Agreements	93.268	C16907	32,538	32,538	5	
	<b>Total CFDA Number</b>	<b>93.268</b>		<b>78,126</b>	<b>78,126</b>		
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	Centers for Disease Control & Prevention_Investigations & Technical Assistance	<b>93.283</b>	C16907	<b>15,956</b>	<b>15,956</b>	2	
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	National Public Health Improvement Initiative	<b>93.292</b>	C16907	<b>8,508</b>	<b>8,508</b>	2,7	
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	<b>93.531</b>	C16907	<b>239,979</b>	<b>239,979</b>	2,7,9	
U.S. Department of Health & Human Services Centers for Disease Control & Prevention / WA State Department of Health	PPHF - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	<b>93.539</b>	C16907	<b>616</b>	<b>616</b>	2	
U.S. Department of Health & Human Services Administration for Children & Families / WA State DSHS	Child Support Enforcement	93.563	2110-80707	592,757	592,757	2,7	
U.S. Department of Health & Human Services Administration for Children & Families / WA State DSHS	Child Support Enforcement	93.563	0763-14892-01	86,698	86,698	2	
U.S. Department of Health & Human Services Administration for Children & Families / WA State DSHS	Child Support Enforcement	93.563	0763-14892-01	121,007	121,007	2	
	<b>Total CFDA Number</b>	<b>93.563</b>		<b>800,462</b>	<b>800,462</b>		
U.S. Department of Health & Human Services Substance Abuse & Mental Health Services Administration / WA State DSHS	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1611CS-63	198,379	198,379	7	
U.S. Department of Health & Human Services Substance Abuse & Mental Health Services Administration / WA State DSHS	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1611CS-63	71,603	71,603	7	
U.S. Department of Health & Human Services Substance Abuse & Mental Health Services Administration / WA State DSHS	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1611CS-63	4,343	4,343	7	
	<b>Total CFDA Number</b>	<b>93.959</b>		<b>274,325</b>	<b>274,325</b>		

Federal Agency Name / Pass-Through Agency Name	Cluster Title / Federal Program Name	Federal CFDA #	Other Identification Number	Expenditures from Pass-Through Awards	Expenditures from Direct Awards	Total Expenditures	Foot-note Ref.
U.S. Department of Health & Human Services Health Resources & Services Centers for Disease Control and Prevention / WA State Department of Health	Preventive Health and Health Services Block Grant	93.991	C16907	57,619		57,619	2, 7
U.S. Department of Health & Human Services Health Resources & Services Administration / WA State Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	C16907	120,455		120,455	2, 7
<b>TOTAL DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>							
<b>EXECUTIVE OFFICE OF THE PRESIDENT</b>							
Executive Office of the President	High Intensity Drug Trafficking Areas Program	95.001	G14NW0004A		165,317	165,317	2
Executive Office of the President	High Intensity Drug Trafficking Areas Program	95.001	G14NW0004A		9,756	9,756	2
Executive Office of the President / WA Educational Service District 105	High Intensity Drug Trafficking Areas Program	95.001	9003000101.	30,000		30,000	2
<b>TOTAL EXECUTIVE OFFICE OF THE PRESIDENT</b>							
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>							
U.S. Department of Homeland Security / US Coast Guard / WA St Parks & Rec	Boating Safety Financial Assistance	97.012	Award 3/25/14	19,180		19,180	2
U.S. Department of Homeland Security / WA State Military Department	Emergency Management Performance Grants	97.042	E14-112	30,896		30,896	
U.S. Department of Homeland Security / WA State Military Department	Emergency Management Performance Grants	97.042	E15-056	20,654		20,654	
<b>Total CFDA Number</b>				<b>51,550</b>		<b>51,550</b>	
U.S. Department of Homeland Security / WA State Military Department	Homeland Security Grant Program	97.067	E14-251	187,131		187,131	8
U.S. Department of Homeland Security / WA State Military Department	Homeland Security Grant Program	97.067	E12-248	166,524		166,524	
U.S. Department of Homeland Security / WA State Military Department	Homeland Security Grant Program	97.067	E13-232	342,295		342,295	
U.S. Department of Homeland Security / WA State Military Department / Snohomish County Emergency Management	Homeland Security Grant Program	97.067	E12-186	36,222		36,222	
U.S. Department of Homeland Security / WA State Military Department / Snohomish County Emergency Management	Homeland Security Grant Program	97.067	E13-152	48,380		48,380	
U.S. Department of Homeland Security / WA State Military Department / Snohomish County Emergency Management	Homeland Security Grant Program	97.067	E14-075	17,062		17,062	
<b>Total CFDA Number</b>				<b>797,614</b>		<b>797,614</b>	
<b>TOTAL DEPARTMENT OF HOMELAND SECURITY</b>							
<b>TOTAL FEDERAL ASSISTANCE</b>				<b>12,057,331</b>	<b>281,725</b>	<b>12,319,056</b>	

**NOTE 1 -** BASIS OF ACCOUNTING: This schedule is prepared on the same basis of accounting as the county financial statements. The county uses the modified accrual basis of accounting.

**NOTE 2 -** PROGRAM COSTS : The amount shown as current year expenditures represents only the federal grant portion of the program costs. Entire program costs, including the county portion, are more than shown.

**NOTE 5 -** NONCASH AWARDS - VACCINATIONS: The amount of vaccine reported on the schedule is the value of vaccine received by the county during current year and priced as prescribed by United States Department of Health and Human Services

**NOTE 6 -** NONCASH AWARDS - SERVICES: The county received services that were purchased with federal Department of Defense funds by the state of Washington. The amount reported on the schedule is the value of the property on the date it was received by the county and price by the state of Washington.

**NOTE 7 -** INDIRECT COST RATE: The amount expended includes the indirect cost recovered using the approved indirect cost rate listed below.

CFDA	Cost Center	Indirect Cost		Indirect Cost Rate	
		Recovery	Jan - Jul	Aug - Dec	
10.557	625201	142,209.17	31.40%	34.45%	
10.557	625260	3,513.74			
10.557	625260	1,176.35		34.45%	
66.123	653200	3,158.10	31.40%	34.45%	
66.123	654620	953.58			
93.069	660600	7,093.58	31.40%		
93.069	660600	13,614.86	31.40%	34.45%	
93.268	627200	10,893.93	31.40%		
93.283	677530	513.51		15.00%	
93.292	652270	2,033.13	31.40%		
93.531	677530	18,042.14		15.00%	
93.539	627200	147.16	31.40%		
93.563	2600		20.98%		
93.991	677530	1,726.05		15.00%	
93.994	621200	28,210.70	31.40%	34.45%	

**NOTE 8 -** AMOUNTS AWARDED TO SUBRECIPIENTS: Included in the total amount expended for this program is "see below by CFDA #" that was passed through to a subrecipient that administered its own project.

CFDA	Cost Center	Passed Through \$\$
10.559	652200	1,136

<b>14.228</b>	4028	702,251
<b>14.228</b>	4272	55,618
<b>14.228</b>	4274	60,083
<b>14.231</b>	122500	134,918
<b>93.283</b>	677530	6,798
<b>93.283</b>	677530	5,221
<b>93.531</b>	677530	99,755
<b>93.991</b>	677530	44,386
<b>97.067</b>	1003514003	136,599

NOTE 10 - Amounts reported include prior year expenditures.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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