



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements Audit Report

# Whatcom Transportation Authority

Whatcom County

For the period January 1, 2014 through December 31, 2015

Published November 7, 2016

Report No. 1017890





## Washington State Auditor's Office

November 7, 2016

Board of Directors  
Whatcom Transportation Authority  
Bellingham, Washington

### **Report on Financial Statements**

Please find attached our report on the Whatcom Transportation Authority's financial statements.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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**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 Transportation Authority  
Whatcom County  
January 1, 2014 through December 31, 2015**

Board of Directors  
Whatcom Transportation Authority  
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 Whatcom Transportation Authority, Whatcom County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 1, 2016. As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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.

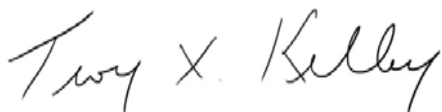
## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority'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 Authority'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 Authority'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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

November 1, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Whatcom Transportation Authority Whatcom County January 1, 2014 through December 31, 2015**

Board of Directors  
Whatcom Transportation Authority  
Bellingham, Washington

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

We have audited the accompanying financial statements of the Whatcom Transportation Authority, Whatcom County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 9.

#### **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 an opinion on these financial statements based on our audits. We conducted our audits 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 Authority'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 Authority'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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Whatcom Transportation Authority, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 2 to the financial statements, in 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

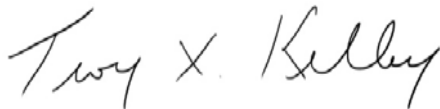
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16 and pension plan information on pages 38 through 39 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

November 1, 2016



## FINANCIAL SECTION

**Whatcom Transportation Authority  
Whatcom County  
January 1, 2014 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015 and 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015 and 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – 2015 and 2014

Statement of Cash Flows – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability PERS 1 – 2015 and 2014

Schedule of Proportionate Share of Net Pension Liability PERS 2/3 – 2015 and 2014

Schedule of Employer Contributions PERS 1 – 2015 and 2014

Schedule of Employer Contributions PERS 2/3 – 2015 and 2014

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2015**

## **Overview**

The management of Whatcom Transportation Authority (WTA) provides the readers of WTA's Financial Statements this narrative as an overview and analysis of the financial activities for the year ended December 31, 2015.

Management is responsible for the completeness, reliability, and objectivity of these financial statements. Estimates and judgments used in the financial statements have been made on a prudent and reasonable basis.

Whatcom Transportation Authority was established in 1983 to provide public transit services within the Public Benefit Transportation Area. Current services include:

- Fixed Route – Provides standard bus service on fixed, regularly scheduled routes.
- Paratransit Service – Provides scheduled transportation service to passengers unable to utilize fixed route service.
- Vanpool - A program that makes a vehicle available to groups of 5-15 people for commuting to work.

## **Financial Highlights**

WTA's financial position continued to stabilize during 2015 due to consistent ridership, sales tax revenue growth and gains in investment income. Fixed route ridership is steady and paratransit ridership increased approximately 5% over 2014. Vanpool ridership decreased from 2014 due to lower gas prices during the year. Capital grant revenue was down \$1.6 million, or 88% compared to 2014 due to a number of capital projects uncompleted and unbilled at year end.

Operating expenses were \$1.3 million, or 4.7% higher than 2014 expenses primarily due to employee benefits, progress on the strategic plan, along with parts and supplies related to nine engine rebuilds and the purchase and installation of two remanufactured engines. Fuel expense was \$578 thousand or 36.6% less than 2014 resulting from lower oil prices in the market.

## **Financial Statements**

The financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). Under GAAP, revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Most capital assets are depreciated over their useful lives. The notes to the financial statements provide a summary of WTA's significant accounting policies.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2015**

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

The Statement of Revenues, Expenses, and Changes in Fund Net Position present information showing WTA's net asset changes during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change actually occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The Statement of Cash Flows presents actual cash activity during the fiscal period related to operating activities, noncapital financing activities, capital activities and investing activities. Additionally, a reconciliation of net cash provided (used) by operating activities to operating income (loss) is included. Over time, increases or decreases in cash balances serve as a useful indicator of the financial stability of WTA.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information essential to fully understand the data provided in WTA's financial statements and are located following the Statement of Cash Flows and should be read in conjunction with the Financial Statements.

**Financial Analysis**

Statement of Net Position

The Condensed Statement of Net Position represents the financial condition of WTA at the end of the last three calendar years and reports all assets, deferred outflows or resources, liabilities, deferred inflows of resources and net position.

A summarized comparison as of December 31, 2015, 2014 and 2013, follows:

**WHATCOM TRANSPORTATION AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)**  
For the Year Ended December 31, 2015

**Condensed Statement of Net Position**

	2015	2014	2013
Current Assets	\$ 37,226,671	\$ 35,376,779	\$ 32,595,148
Capital Assets	42,213,829	44,240,513	44,958,768
<b>Total Assets</b>	<u>\$ 79,440,500</u>	<u>\$ 79,617,292</u>	<u>\$ 77,553,916</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 1,309,919</u>	<u>\$ -</u>	<u>\$ -</u>
Current Liabilities	\$ 2,594,858	\$ 2,431,232	\$ 2,503,646
Noncurrent Liabilities	11,212,746	68,367	85,539
<b>Total Liabilities</b>	<u>\$ 13,807,604</u>	<u>\$ 2,499,599</u>	<u>\$ 2,589,185</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 1,693,724</u>	<u>\$ -</u>	<u>\$ -</u>
Invested in capital assets (net of debt)	\$ 42,213,829	\$ 44,240,513	\$ 44,958,768
Unrestricted	23,035,262	32,877,180	30,005,963
<b>Total Net Position</b>	<u>\$ 65,249,091</u>	<u>\$ 77,117,693</u>	<u>\$ 74,964,731</u>

### Assets

Current assets in 2015 grew over \$1.8 million, or 5.3% over 2014 primarily due to increases in cash and cash equivalents couple with higher receivable balances and inventory. In 2014, current assets increased \$2.8 million, or 8.5% due to constrained spending during 2013.

Capital assets declined \$2 million, or 4.6% from 2014 as completed projects were included on the books and began to be depreciated. In 2014, capital assets decreased \$718 thousand, or 1.6% from 2013 due largely to annual depreciation in excess of assets acquisitions.

### Liabilities

Current liabilities increased \$163 thousand, or 6.7% over 2014 due to higher balances of outstanding invoices at the end of the year and a small reduction in accrued compensated absences. In 2014, current liabilities decreased \$72 thousand, or 2.9% primarily due to changes in the self-insured medical program.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2015**

Noncurrent liabilities increased \$11.1 million, or 163.0% over 2014 due to a mandated change in accounting principle related to pension plans that went into effect this year. The \$11 million change represents WTA's net pension obligation to employees covered by the PERS pension plan. In 2014, noncurrent liabilities decreased \$17 thousand, or 20.1% from 2013 due to reductions in the long-term vacation liability and related benefits.

### **Net Position**

The difference between total assets and total liabilities is net position. The change in net position measures whether the overall financial condition of the agency has improved or deteriorated during the year.

Net position in 2015 decreased \$11.9 million, or 15.4% over 2014 due to the recording of the net pension obligation required by PERS participants. Net position in 2014 increased \$2.2 million, or 2.9% from 2013 primarily due to strong operating income.

The net position is reported in the following categories:

Net Investment in Capital Assets: WTA's total investments in land, buildings, buses, equipment, technology, and other infrastructure net of accumulated depreciation. WTA uses these capital assets to provide public transportation services to the citizens and visitors of the Whatcom County Public Transportation Benefit District.

Unrestricted: WTA funds available to the agency to meet obligations to its citizens and creditors.

### Statement of Revenues, Expenses and Changes in Fund Net Position

The Statement of Revenues, Expenses, and Changes in Fund Net Position present WTA's results of operating and non-operating items that result in the changes in net position for the year. In accordance with Governmental Accounting Standards Board (GASB) reporting principles, revenues and expenses are classified as operating or non-operating.

A summarized comparison of WTA's revenues, expenses, and changes in net position for the years ended December 31, 2015, 2014 and 2013, follows:

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2015**

**Condensed Statement of  
Revenues, Expenses and Changes in Fund Net Position**  
(including depreciation)

	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>12/31/2013</u>
Operating Revenues	\$ 4,427,977	\$ 4,389,228	\$ 4,403,393
Operating Expenses	<u>28,494,176</u>	<u>27,209,938</u>	<u>26,655,488</u>
Operating (Loss)	(24,066,199)	(22,820,710)	(22,252,095)
Non-operating revenue	24,025,311	24,931,277	27,569,448
Special Item - see Note 9	-	46,202	-
(Loss) Gain on Disposal of Assets	<u>(50,224)</u>	<u>(3,807)</u>	<u>15,263</u>
<b>(Decrease) Increase in Net Position</b>	(91,112)	2,152,962	5,332,616
Net Position - Beginning of Period	77,117,693	74,964,731	69,632,115
Changes in Accounting Principles-GASB 68	<u>(11,777,490)</u>	<u>-</u>	<u>-</u>
<b>Net Position - End of Period</b>	<u>\$ 65,249,091</u>	<u>\$ 77,117,693</u>	<u>\$ 74,964,731</u>

WTA's operations are funded primarily with local sales tax revenue, passenger fares and service agreements with other agencies. Capital projects (expenditures for procuring or improving fleet and facilities) are largely funded with federal and state grants. Local funds (sales tax revenue and passenger fares) are required to supplement the capital project budget in order to meet grant-match requirements or fund projects that do not have grant funding.

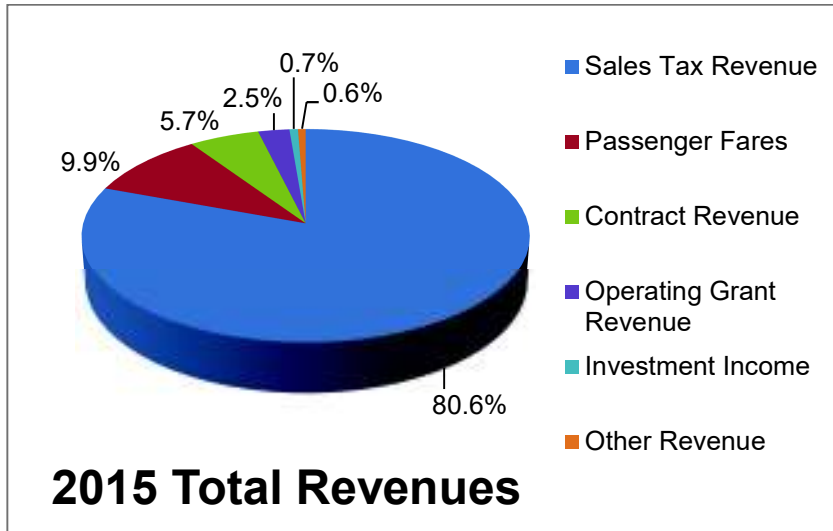
Operating revenues consist primarily of transit and transit related services such as passenger fares, vanpool charges, advertising revenue and tenant lease income. In 2015, operating revenues grew \$39 thousand, or .9% over 2014 due to increases in revenue received from WTA's contract partners, offset by a slight decline in passenger fares. In 2014, operating revenues decreased \$14 thousand, or .3% from 2013 primarily due to lower passenger fare and vanpool revenue.

Non-operating revenues consist primarily of sales tax revenue, operating grants and interest income. WTA currently receives six-tenths of one percent of Whatcom County sales and use tax. Sales tax revenue increased \$889 thousand or 4.1% over 2014 due to increased construction activity in the county while the increase was \$687 thousand, or 3.3% between 2014 and 2013.

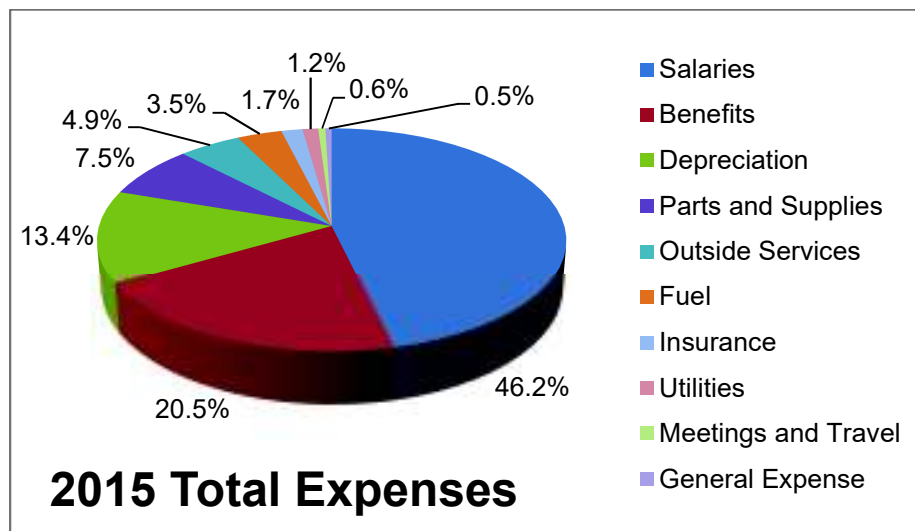
WTA received operating grant funds totaling \$712 thousand in 2015 through the State of Washington's Department of Transportation for operating assistance for paratransit operations. In 2014, WTA received \$845 thousand to support the County Connector route between Whatcom and Skagit Counties and paratransit operations. WTA also received a Public Transportation Grant providing operating assistance to the State's public transit agencies.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2015**

Additionally, WTA received a Risk Management Grant award for \$2,500 from the Washington State Transit Insurance Pool (WSTIP) in 2015, 2014, and 2013. These funds were allocated to the enhancement of WTA's Emergency Operations and Safety Program.



Operating expenses consist of expenses related to transit operations, maintenance, administration, customer service, marking, depreciation and amortization. In 2015, operating expenses increased \$1.3 million, or 4.7% over 2014 due to greater maintenance expense related to engine rebuilds and tire purchases. This increase was offset by lower fuel costs. In 2014, operating expenses were \$554 thousand, or 2.1% over 2013 primarily due to increased operations expense offset by lower maintenance expense.



**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2015**

**Revenue Analysis**

<b>Revenues</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2015 % of Total</b>	<b>2015 vs. Prev Yr</b>
Operating	\$ 4,427,977	\$ 4,389,228	\$ 4,403,393	15.59%	\$ 38,749
Invest. Income	217,812	153,036	113,923	0.77%	64,776
Sales Tax	22,696,321	21,807,594	21,120,920	79.91%	888,727
Operating Grants	714,708	847,370	846,708	2.51%	(132,662)
Capital Grants	217,944	1,872,633	5,292,847	0.77%	(1,654,689)
Other Revenue	178,526	250,644	195,050	0.63%	(72,118)
Special Item	-	46,202	-	0.00%	(46,202)
(Loss)/Gain	(50,224)	(3,807)	15,263	-0.18%	(46,417)
<b>Total Revenue</b>	<b>\$ 28,403,064</b>	<b>\$ 29,362,900</b>	<b>\$ 31,988,104</b>	<b>100.00%</b>	<b>\$ (959,836)</b>

**Requests for Information**

The financial report is designed to provide a general overview of Whatcom Transportation Authority's financial position. Questions regarding this report or requests for additional information should be directed to:

Shonda L. Shipman, CPA, CGMA  
Director of Finance  
Whatcom Transportation Authority  
4111 Bakerview Spur  
Bellingham, WA 98226-8056  
(360) 788-9331



**WHATCOM TRANSPORTATION AUTHORITY  
STATEMENT OF NET POSITION**

**December 31, 2015 and 2014**

<b>ASSETS</b>	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and Cash Equivalents	\$ 30,881,534	\$ 29,249,884
Accounts Receivable (Net)	145,589	116,286
Taxes Receivable	4,130,209	4,009,555
Grants Receivable	274,708	284,646
Interest Receivable	20,305	13,255
Due from Other Governments	416,545	538,865
Inventories	1,161,880	1,058,964
Prepayments	195,901	105,324
Total current assets	<u>37,226,671</u>	<u>35,376,779</u>
Noncurrent assets:		
Capital Assets not Being Depreciated:		
Land	6,130,578	6,130,578
Construction in Progress	695,068	1,741,957
Capital Assets Being Depreciated:		
Buildings	23,880,804	23,880,804
Improvements	3,141,035	2,812,639
Transportation Equipment	32,030,857	32,025,177
Other Equipment	5,430,718	4,173,330
Maintenance/shop equipment	1,879,955	1,658,610
Communications equipment	1,531,245	1,247,603
Less: Accumulated depreciation	<u>(32,506,431)</u>	<u>(29,430,185)</u>
Total Noncurrent Assets	42,213,829	44,240,513
 TOTAL ASSETS	 <u>\$ 79,440,500</u>	 <u>\$ 79,617,292</u>
 <b>DEFERRED OUTFLOWS of RESOURCES</b>		
Deferred Outflows Related to Pensions	\$ 1,309,919	\$ -
 TOTAL DEFERRED OUTFLOWS of RESOURCES	 <u>\$ 1,309,919</u>	 <u>\$ -</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**WHATCOM TRANSPORTATION AUTHORITY  
STATEMENT OF NET POSITION**

**December 31, 2015 and 2014**

<b>LIABILITIES</b>	<u>2015</u>	<u>2014</u>
Current liabilities:		
Accounts Payable	\$ 462,695	\$ 303,728
Accrued Wages	472,491	457,475
Accrued Compensated Absences	1,379,513	1,405,390
Other Accrued Expenses	<u>280,159</u>	<u>264,639</u>
Total Current Liabilities	<u>2,594,858</u>	<u>2,431,232</u>
Noncurrent Liabilities:		
Accrued Long-Term Compensated Absences	85,364	62,941
Other Noncurrent Liabilities	5,426	5,426
Pension Obligations (Net)	<u>11,121,956</u>	<u>-</u>
Total noncurrent liabilities	<u>11,212,746</u>	<u>68,367</u>
TOTAL LIABILITIES	<u>\$ 13,807,604</u>	<u>\$ 2,499,599</u>
<b>DEFERRED INFLOWS of RESOURCES</b>		
Deferred Inflows Related to Pensions	\$ 1,693,724	\$ -
TOTAL DEFERRED INFLOWS of RESOURCES	<u>\$ 1,693,724</u>	<u>\$ -</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	42,213,829	44,240,513
Unrestricted	<u>23,035,262</u>	<u>32,877,180</u>
<b>TOTAL NET POSITION</b>	<u>\$ 65,249,091</u>	<u>\$ 77,117,693</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**WHATCOM TRANSPORTATION AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**

**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES:</b>		
Passenger Fares	\$ 1,749,752	\$ 1,906,013
Special Transit Fares	2,398,639	2,182,764
Supplementary Transportation	233,308	270,074
Other Operating Revenues	46,278	30,377
Total Operating Revenues	<u>4,427,977</u>	<u>4,389,228</u>
<b>OPERATING EXPENSES:</b>		
Operations	14,509,808	14,486,247
Maintenance	4,745,815	4,070,435
Administrative Expenses	5,423,383	5,014,409
Depreciation	3,815,170	3,638,847
Total Operating Expenses	<u>28,494,176</u>	<u>27,209,938</u>
Operating Loss	<u>(24,066,199)</u>	<u>(22,820,710)</u>
<b>NONOPERATING REVENUES:</b>		
Sales Tax	22,696,321	21,807,594
External subsidies - grant revenue	932,652	2,720,003
Investment income	217,812	153,036
Other non operating revenues	178,526	250,644
Total Nonoperating Revenues	<u>24,025,311</u>	<u>24,931,277</u>
(Loss) / Income before contributions, gains, losses, other revenues and expenses	(40,888)	2,110,567
Special item	-	46,202
(Loss) on asset disposal	(50,224)	(3,807)
(Decrease) / increase in net position	<u>(91,112)</u>	<u>2,152,962</u>
Net Position - beginning of period	77,117,693	74,964,731
Changes in Accounting Principles-GASB 68	(11,777,490)	-
Net Position - end of period	<u>\$ 65,249,091</u>	<u>\$ 77,117,693</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**WHATCOM TRANSPORTATION AUTHORITY  
STATEMENT OF CASH FLOWS**

**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS from OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 4,520,995	\$ 4,043,705
Payments to suppliers	(5,482,300)	(4,928,953)
Payments to employees	(19,297,906)	(18,198,264)
Other (payments) receipts	<u>(295,741)</u>	<u>398,937</u>
Net cash (used) by operating activities	(20,554,952)	(18,684,575)
<b>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</b>		
Tax receipts	22,696,321	21,807,594
Operating contributions - grants	714,708	847,370
Other noncapital financing activities	<u>178,526</u>	<u>250,644</u>
Net cash provided by noncapital financing activities	23,589,555	22,905,608
<b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>		
Capital contributions - grants	217,944	1,872,633
Purchases of capital assets	(1,788,485)	(2,920,593)
Other (payments)	<u>(50,224)</u>	<u>(3,807)</u>
Net cash (used) by capital and related financial activities	(1,620,765)	(1,051,767)
<b>CASH FLOWS from INVESTING ACTIVITIES</b>		
Interest and dividends	<u>217,812</u>	<u>153,036</u>
Net cash provided by investing activities	217,812	153,036
Net increase in cash and cash equivalents	1,631,650	3,322,302
Balances - beginning of the year	29,249,884	25,927,582
Balances - end of the year	<u>\$ 30,881,534</u>	<u>\$ 29,249,884</u>

**Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities**

Operating (loss)	\$ (24,066,199)	\$ (22,820,710)
Adjustments to reconcile operating income to net cash provided:		
Depreciation expense	3,815,170	3,638,847
Change in assets and liabilities:		
Receivables, net	(24,749)	274,111
Inventories and other current assets	(193,493)	266,560
Accounts and other payables	163,626	(26,212)
Accrued expenses	<u>(249,307)</u>	<u>(17,171)</u>
Net cash (used) by operating activities	<u>\$ (20,554,952)</u>	<u>\$ (18,684,575)</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**WHATCOM TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

**(These notes are an integral part of these financial statements)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Whatcom Transportation Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units.

The Authority has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). 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 Transportation Authority was incorporated in August 1983 and operates under the laws of the state of Washington applicable to a municipality.

The Authority is a special purpose government and provides transportation services to the general public within Whatcom County and is supported primarily through local sales tax collections and user charges. It is governed by an appointed nine-member board of elected officials that are representative of the districts served by WTA. As required by the generally accepted accounting principles, management has considered all potential component units in defining the reporting entity and has determined that the Authority has no component units.

**B. Measurement Focus, Basis of Accounting**

The accounting records of the Authority are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 of the RCW. The Authority complies with the Budgeting, Accounting and Reporting System (BARS) for Cities, Counties and Special Purpose Districts in the State of Washington.

Statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expense are recorded when liability is incurred regardless of the timing of the cash flows.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority come from fare box collections and bus pass media sales. The Authority also recognizes vanpool income, special transit fare agreements with other governmental agencies, and rental income as operating revenue. Operating expenses for the Authority include, but are not limited to, wages and benefits, vehicle maintenance and operations costs, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

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C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the Authority's policy to invest all temporary cash surpluses. At December 31, 2015, Whatcom Transportation Authority was holding \$30,881,534 in short-term residual investments of surplus cash. Of this, \$30,827,523 was held in the Whatcom County Investment Pool. This amount is classified on the balance sheet as cash and cash equivalents. The 2014 year-end balance was \$29,249,884.

The Authority's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

For purposes of the statement of cash flows, the Authority considers all highly-liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables

Taxes receivable at December 31, 2015 consist of \$4,072,549 in state sales tax receivable for the months of November 2015 and December 2015, and \$57,660 due from the Washington State Department of Licensing representing the State gas and diesel taxes paid on fuel purchases to be refunded. WTA is required to pay this fuel tax on purchases of fuel from its vendor and then applies for a refund based upon monthly revenue vehicle usage. Taxes receivable at December 31, 2014 were \$3,978,784 and \$30,771 respectively.

Customer accounts receivable at December 31, 2015 of \$145,589 consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. This amount is considered fully collectible by WTA. Customer accounts receivable at December 31, 2014 was \$116,286.

Grants receivable at December 31, 2015 consist of \$144,887 due from the Washington State Department of Transportation and \$129,821 due from the Federal Transit Administration. Grants receivable at December 31, 2014 were \$138,664 and \$145,982 respectively.

Interest receivable at December 31, 2015 totaled \$20,305. This is interest earned on investments and tax revenues through the end of the year but not received by year end. Interest receivable at December 31, 2014 was \$13,255.

3. Amounts Due from Other Funds and Governments at December 31, 2015 consist of \$387,155 from Bellingham Transportation Benefit District #1 for contracted bus service and \$29,390 from the Nooksack Indian Tribe for fixed route service.

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Amounts due at year-end 2014 were \$132,621 from Bellingham Transportation Benefit District #1, \$359,751 from Western Washington University and \$46,493 from the Nooksack Indian Tribe.

4. Inventories are valued by the weighted average method. Inventories were valued at \$ 1,161,880 at December 31, 2015 and \$1,058,964 at December 31, 2014.
5. Capital Assets See Note 3, *Capital Assets*.

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

The Authority has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Authority has sufficient legal interest to include these assets in WTA's records.

Property, plant, and equipment of the Authority are depreciated using the straight-line method with useful lives of 3 to 30 years.

6. Deferred Outflows/Inflows of Resources See Note 6, *Pensions*
7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Most non-exempt employees of the Whatcom Transportation Authority are covered by a bargaining agreement with the Amalgamated Transit Union #843. Under provisions of this contract, employees accrue vacation benefits at rates of 104 - 200 hours per year, based upon years of service, and sick leave benefits at the rate of 96 hours per year. Exempt employees accrue vacation benefits at rates of 144 - 248 hours per year, based upon years of service, and sick leave benefits at the rate of 96 hours per year. The maximum amount of vacation accrual is 24 months and sick leave is 1,000 hours.

At separation, an employee in good standing with an accrued sick leave balance of 500 hours or greater can cash out 60% of the sick leave balance. Those with an accrued sick leave balance of 300 to 499 hours at time of separation can cash out 30% of that balance. As of December 31, 2015, a liability of \$1,464,877 has been accrued for vacation, sick leave and related benefits liability. The liability at year end 2014 was \$1,468,331.

**WHATCOM TRANSPORTATION AUTHORITY  
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8. Pensions See Note 6, *Pension Plans*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Other Accrued Liabilities

These accounts consist of accrued wages and related payroll taxes and employee benefits.

**NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE**

WTA implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* in 2015. The Statement took effect for governments in fiscal years beginning after June 15, 2014. The statement revises and established new financial reporting requirements for most state and local governments that provide their employees with pension benefits.

The implementation required a restatement of the 2014 unrestricted net position in the amount of \$11,777,490 to properly reflect the agency's deferred outflows and inflows of resources related to pensions, the net pension obligation and pension expense for activity prior to 2015.

Additional entries were made during 2015 to update the ending balances of the agency's deferred outflows and inflows of resources related to pensions, the net pension obligation and pension expense for the year ended December 31, 2015.

WTA will continue to update these balances annually based on information received from the Washington State Department of Retirement Systems.

See Note 6 *Pension Plans* for additional information.



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**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2015 was as follows:

	<b>Beginning Balance 1/1/2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2015</b>
Capital assets, not being depreciated:				
Land	\$ 6,130,578	\$ -	\$ -	\$ 6,130,578
Work in progress	1,741,957	695,068	1,741,957	695,068
<b>Total capital assets, not being depreciated</b>	<b>7,872,535</b>	<b>695,068</b>	<b>1,741,957</b>	<b>6,825,646</b>
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements other than buildings	2,812,639	328,396	-	3,141,035
Transportation equipment	32,025,177	657,655	651,975	32,030,857
Communications equipment	1,247,603	433,153	149,511	1,531,245
Maintenance/shop equipment	1,658,610	221,345	-	1,879,955
Other equipment	4,173,330	1,264,149	6,761	5,430,718
<b>Total capital assets being depreciated</b>	<b>65,798,163</b>	<b>2,904,698</b>	<b>808,247</b>	<b>67,894,614</b>
Less accumulated depreciation for:				
Buildings	9,737,954	819,622	-	10,557,576
Improvements	1,799,254	145,398	-	1,944,652
Transportation equipment	12,388,566	2,514,198	738,986	14,163,778
Communications equipment	852,675	495,089	519,652	828,112
Maintenance/shop equipment	876,668	113,696	-	990,364
Other equipment	3,775,068	253,642	6,761	4,021,949
<b>Total accumulated depreciation</b>	<b>29,430,185</b>	<b>4,341,645</b>	<b>1,265,399</b>	<b>32,506,431</b>
<b>Total capital assets, net</b>	<b>\$44,240,513</b>	<b>\$(741,879)</b>	<b>\$1,284,805</b>	<b>\$42,213,829</b>

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

	<b>Beginning Balance 1/1/2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2014</b>
Capital assets, not being depreciated:				
Land	\$ 6,130,578	\$ -	\$ -	\$ 6,130,578
Work in progress	1,058,035	1,741,957	1,058,035	1,741,957
<b>Total capital assets, not being depreciated</b>	<b>7,188,613</b>	<b>1,741,957</b>	<b>1,058,035</b>	<b>7,872,535</b>
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements other than buildings	2,397,408	415,231	-	2,812,639
Transportation equipment	31,502,513	1,423,914	901,250	32,025,177
Communications equipment	975,925	271,678	-	1,247,603
Maintenance/shop equipment	1,505,262	153,348	-	1,658,610
Other equipment	4,173,330	-	-	4,173,330
<b>Total capital assets being depreciated</b>	<b>64,435,242</b>	<b>2,264,171</b>	<b>901,250</b>	<b>65,798,163</b>
Less accumulated depreciation for:				
Buildings	8,918,332	819,622	-	9,737,954
Improvements	1,671,528	149,760	22,034	1,799,254
Transportation equipment	10,956,665	2,305,651	873,750	12,388,566
Communications equipment	788,326	64,349	-	852,675
Maintenance/shop equipment	778,716	114,270	16,318	876,668
Other equipment	3,551,520	358,345	134,797	3,775,068
<b>Total accumulated depreciation</b>	<b>26,665,087</b>	<b>3,811,997</b>	<b>1,046,899</b>	<b>29,430,185</b>
<b>Total capital assets, net</b>	<b>\$44,958,768</b>	<b>\$ 194,131</b>	<b>\$ 912,386</b>	<b>\$44,240,513</b>

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(These notes are an integral part of these financial statements)

**NOTE 4 – CHANGES IN LONG-TERM LIABILITIES**

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	<b>Beginning</b>			<b>Ending</b>	
	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>1/1/2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>12/31/2015</b>	<b>One Year</b>
Pension obligations	\$ -	\$ 11,121,956	\$ -	\$ 11,121,956	\$ -
Compensated absences	62,941	22,423	-	85,364	-
Other noncurrent liabilities	5,426	-	-	5,426	-
<b>Total Long-Term Liabilities</b>	<b>\$ 68,367</b>	<b>\$ 11,144,379</b>	<b>\$ -</b>	<b>\$ 11,212,746</b>	<b>\$ -</b>

**NOTE 5 - CONTINGENCIES AND LITIGATIONS**

The Authority has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on the available information, management believes it is probable that the Authority will have to make payment. In the opinion of management, the Authority's insurance are adequate to pay all known or pending claims.

WTA has fifteen (15) unresolved claims against it as of December 31, 2015. Financial Accounting Standards Statement 5 requires an accrual of potential losses if:

- a) There is significant information to indicate a loss is likely to occur, and
- b) The amount of the loss can be reasonable estimated.

None of the claims or suites requires a loss accrual under these criteria.

In the opinion of management, such claims will be immaterial and will not have any significant effect on the financial position of WTA. The Washington State Transit Insurance Pool (WSTIP) covers all current claims under the pool's coverage limits.

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

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**NOTE 6 - PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ 11,121,956
Deferred outflows of resources	\$ 1,309,919
Deferred inflows of resources	\$ 1,693,724
Pension expense/expenditures	\$ 1,073,118

**State Sponsored Pension Plans**

Substantially all Whatcom Transportation Authority full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees’ Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. 1

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Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

\* For employees participating in JBM, the contribution rate was 12.26%

The Authority's actual contributions to the plan were \$11,402 for the year ended December 31, 2015.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion

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of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

\* For employees participating in JBM, the contribution rate was 15.30%

The Authority's actual contributions to the plan were \$1,304,608 for the year ended December 31, 2015.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

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- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

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**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

**Sensitivity of NPL**

The table below presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1	\$ 7,315,692	\$ 6,008,769	\$ 4,884,935
PERS 2/3	14,951,225	5,113,187	(2,419,429)

**Pension Plan Fiduciary Net Position**

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.



**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

(These notes are an integral part of these financial statements)

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the Authority reported a total pension liability of \$11,121,956 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 6,008,769
PERS 2/3	5,113,187

At June 30, the Authority's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/14</b>	<b>Proportionate Share 6/30/15</b>	<b>Change in Proportion</b>
PERS 1	0.114069%	0.114870%	0.000801%
PERS 2/3	0.141492%	0.143104%	0.001612%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2015, the Authority recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ 413,614
PERS 2/3	659,504
<b>TOTAL</b>	<b>\$ 1,073,118</b>

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

(These notes are an integral part of these financial statements)

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments		\$ 328,745
Contributions subsequent to the measurement date	\$ 310,190	
<b>TOTAL</b>	<b>\$ 310,190</b>	<b>\$ 328,745</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 543,533	
Net difference between projected and actual investment earnings on pension plan investments		\$ 1,364,979
Changes of assumptions	\$ 8,238	
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 51,869	
Contributions subsequent to the measurement date	\$ 396,089	
<b>TOTAL</b>	<b>\$ 999,729</b>	<b>\$ 1,364,979</b>

Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2016	\$ 15,255
2017	\$ 15,255
2018	\$ 15,255
2019	\$ 6,102
2020	\$ -
Thereafter	\$ -

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

**(These notes are an integral part of these financial statements)**

**NOTE 7 – RISK MANAGEMENT**

Whatcom Transportation Authority is a member of the Washington State Transit Insurance Pool (The Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint management of services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 of the RCW, the Interlocal Cooperation Act. The Pool was formed on January 1, 1989. To date, 25 transit agencies are members of the Pool.

The Pool allows members programs of joint self-insurance; joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. The Pool is fully funded by its member participants. Members make an annual contribution to the pool. The pool acquires reinsurance from unrelated underwriters that are subject to a pool per occurrence self-insured retention. Members are responsible for the selected deductible amounts of each claim. Claims are filed by members and the Pool performs claims adjustments, loss prevention, and appraisal services.

WTA joined the Pool in December 1995, for coverage effective January 1, 1996. Current coverage includes:

<b>Risk</b>	<b>Coverage</b>	<b>Deductible</b>
Bodily Injury / Property Damage	\$20,000,000 per each occurrence	\$5,000
Personal Injury / Advertising Injury	\$20,000,000 per offense	\$5,000
Vanpool Driver Medical Expense Protection	\$35,000 per each occurrence	\$5,000
Underinsured Motorists Coverage	\$60,000 per each occurrence	\$5,000
Employee Theft	\$1,000,000 per loss	\$10,000
Forgery or Alteration	\$1,000,000 per loss	\$10,000
Theft of Money & Securities	\$1,000,000 per loss	\$10,000
Computer Fraud	\$1,000,000 per loss	\$10,000
Funds Transfer Fraud	\$1,000,000 per loss	\$10,000
Money Orders and Counterfeit Currency	\$1,000,000 per loss	\$10,000
Public Officials Liability	\$20,000,000 per occurrence	\$5,000
Pollution and Remediation	\$5,000,000 per condition	\$5,000

**NOTE 8 – HEALTH & WELFARE**

Whatcom Transportation Authority is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

**WHATCOM TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

**(These notes are an integral part of these financial statements)**

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

**(These notes are an integral part of these financial statements)**

**NOTE 9 – SPECIAL ITEM – SALE OF FTA FUNDED VEHICLES**

In 2011 and in 2012 WTA sold, at auction, surplus revenue vehicles that had reached the end of their useful lives. These vehicles were originally purchased using Federal Transit Administration grant funding. Per FTA Circular 5010.1D, pg. IV-28, when a vehicle is sold for greater than \$5,000, those funds must be returned to FTA or permission must be granted by FTA to use those excess grant funds on future projects.

WTA requested approval from FTA to use those funds on future projects rather than return them. Under the terms of the agreement, until such time as those funds are incorporated into a new grant application, they must be recorded on the Authority's books as a liability payable to the FTA.

In 2014 these funds were incorporated into a new grant application and the liability payable to the FTA has been reversed.

**WHATCOM TRANSPORTATION AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 2015**

**Whatcom Transportation Authority  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 1  
As of June 30**

	2015	2014
Employer's proportion of the net pension liability (asset)	0.114870%	0.114069%
Employer's proportionate share of the net pension liability	\$ 527,938	\$ 504,904
Employer's covered employee payroll	\$ 205,964	\$ 206,239
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	256.33%	244.81%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%

**Whatcom Transportation Authority  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 2/3  
As of June 30**

	2015	2014
Employer's proportion of the net pension liability (asset)	0.143104%	0.141492%
Employer's proportionate share of the net pension liability	\$ 637,459	\$ 597,718
Employer's covered employee payroll	\$ 12,699,872	\$ 12,105,668
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5.02%	4.94%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%

**WHATCOM TRANSPORTATION AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 2015**

**Whatcom Transportation Authority  
Schedule of Employer Contributions  
PERS 1  
As of December 31**

	2015	2014
Statutorily or contractually required contributions	\$ 11,402	\$ 23,295
Contributions in relation to the statutorily or contractually required contributions	\$ (11,402)	\$ (23,295)
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 112,715	\$ 252,928
Contributions as a percentage of covered employee payroll	10.12%	9.21%

**Whatcom Transportation Authority  
Schedule of Employer Contributions  
PERS 2/3  
As of December 31**

	2015	2014
Statutorily or contractually required contributions	\$ 1,304,608	\$ 1,141,911
Contributions in relation to the statutorily or contractually required contributions	\$ (1,304,608)	\$ (1,141,911)
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 12,897,880	\$ 12,398,598
Contributions as a percentage of covered employee payroll	10.11%	9.21%

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>