



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Financial Statements Audit Report**

## **Whatcom Transportation Authority**

**For the period January 1, 2017 through December 31, 2018**

**Published May 16, 2019**

**Report No. 1023826**





**Office of the Washington State Auditor  
Pat McCarthy**

May 16, 2019

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,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
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  
January 1, 2017 through December 31, 2018**

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, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 9, 2019.

**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 opinions 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.



Pat McCarthy  
State Auditor  
Olympia, WA

May 9, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Whatcom Transportation Authority January 1, 2017 through December 31, 2018**

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, as of and for the years ended December 31, 2018 and 2017, 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 opinions 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 opinions.

## **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, 2018 and 2017, 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.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 May 9, 2019 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

May 9, 2019



## **FINANCIAL SECTION**

### **Whatcom Transportation Authority January 1, 2017 through December 31, 2018**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2018 and 2017

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2018 and 2017

Statement of Revenues, Expenses and Changes in Net Position – 2018 and 2017

Statement of Cash Flows – 2018 and 2017

Notes to Financial Statements – 2018 and 2017

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2018 and 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2018 and 2017

Schedule of Employer Contributions – PERS 1 – 2018 and 2017

Schedule of Employer Contributions – PERS 2/3 – 2018 and 2017

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

## **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, 2018.

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.

## **Agency Accomplishments**

WTA expanded service by 2% in June 2018 to address overcrowding issues on Western Washington University routes and improve on-time performance of the GO Lines. GO Lines offer service every 15 minutes on weekdays along four major corridors in Bellingham. This additional service responded to a strategic goal of addressing the continual growing and changing transportation needs of our community.

The agency also launched the Smart Bus project including real-time passenger information, automated stop announcements and computer aided dispatch. This technology should be available to riders in the fall of 2019.

WTA created a written plan for mid to long term development and maintenance of our properties including the administrative base, transit stations and other assets. This plan meets state and federal requirements to keep our facilities and rolling stock in a state of good repair.

WTA implemented initiatives to improve safety and sustainability including a new payroll system that is more efficient and cost effective along with converting thirteen (13) paratransit buses to propane and installing a fueling station.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

## **Financial Highlights**

WTA's cash and cash equivalents increased \$746 thousand, or 2.3%, over 2017 primarily due to a variety of capital projects not completing in 2018 and sales tax revenue greater than budget. Cash and cash equivalents declined \$532 thousand in 2017 from 2016 as additional service was rolled out and an effort was made to reduce undesignated financial reserves.

Fixed route ridership declined 1.3% in 2018, a smaller reduction than WTA would have experienced had service not increased in 2018 and 2017. Similarly, many transit agencies throughout the country are experiencing declining ridership.

During 2018, paratransit ridership decreased 2.9%, driven by the closure of the Adult Day Health program, activating conditional eligibility factors, and shifting some riders to fixed route after participating in travel training. Paratransit ridership in 2017 increased approximately 3.7% over 2016 as the population of Whatcom County continues to age and more disabled residents use WTA services.

Vanpool ridership continues to decline over time due to a robust economy reducing the need for vanpooling. WTA recommends downsizing the vanpool program to achieve cost efficiencies after a targeted outreach to increase awareness and participation.

Sales tax revenues were over budget at \$2.1 million, or 8.1%, above 2017 figures attributable to high retail sales and large construction projects. During 2017, sales tax revenues were strong while contract revenue declined significantly due to the expiration of agreements with the City of Bellingham Transportation Benefit District No. 1 and the Nooksack Tribe.

Fare revenue during 2018 was relatively flat compared to the prior year while slightly higher in 2017 versus 2016 due to a new partnership with Whatcom Community College to encode a transit pass on each student's identification card when they meet certain enrollment criteria.

During 2018, capital grant revenue declined \$631 thousand, or 102.3% from 2017 due to an order of Paratransit buses that were received but not yet reimbursed at year end and the return of \$145 thousand of grant funds to the Federal Transit Administration (FTA) for recovery of damages relating to the farebox system replacement project. Capital grant revenue decreased \$4.1 million in 2017 compared to 2016 as no fixed route buses were purchased.

As WTA grows, operating expenses increased as new employees were added to prepare for the 2018 and June 2019 service expansion along with escalations in insurance premiums and costs to maintain and service facilities, vehicles and other equipment.

Capital expenditures were significantly under budget for projects that were deferred or not completed during 2018 including a property purchase, the development of the Midway Lot and the Bellingham Transit Station remodel.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

**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.

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 presents 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.

**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.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

A summarized comparison as of December 31, 2018, 2017 and 2016, follows:

**Condensed Statement of Net Position**

|   | 2018                 | 2017                 | 2016                 |
|---|----------------------|----------------------|----------------------|
| Current Assets                              | \$ 40,033,033        | \$ 39,534,054        | \$ 39,080,498        |
| Capital Assets                              | 39,310,230           | 41,163,871           | 44,215,043           |
| <b>Total Assets</b>                         | <b>\$ 79,343,263</b> | <b>\$ 80,697,925</b> | <b>\$ 83,295,541</b> |
| <b>Total Deferred Outflows of Resources</b> | <b>\$ 1,859,708</b>  | <b>\$ 1,791,908</b>  | <b>\$ 2,297,078</b>  |
| Current Liabilities                         | \$ 4,465,116         | \$ 2,894,110         | \$ 2,836,070         |
| Noncurrent Liabilities                      | 8,211,405            | 10,770,586           | 13,346,665           |
| <b>Total Liabilities</b>                    | <b>\$ 12,676,521</b> | <b>\$ 13,664,696</b> | <b>\$ 16,182,735</b> |
| <b>Total Deferred Inflows of Resources</b>  | <b>\$ 3,065,742</b>  | <b>\$ 1,763,454</b>  | <b>\$ 263,351</b>    |
| Invested in capital assets (net of debt)    | \$ 39,310,230        | \$ 41,163,871        | \$ 44,215,043        |
| Unrestricted                                | 26,150,478           | 25,897,812           | 24,931,490           |
| <b>Total Net Position</b>                   | <b>\$ 65,460,708</b> | <b>\$ 67,061,683</b> | <b>\$ 69,146,533</b> |

### Assets

Current assets increased \$499 thousand, or 1.3%, during 2018 due to strong sales tax receipts and gains in investment income compared to a \$454 thousand, or 1.2%, increase in 2017 primarily due to increases in sales tax receipts and grant funds due to WTA at December 31<sup>st</sup>. A portion of these grants funds in 2017 include \$16,756 and \$3,093 from the Federal Emergency Management Fund and the Washington State Military Department, respectively, as reimbursement for expenses incurred during a weather event in early 2017.

Capital assets decreased \$1.9 million during 2018, or 4.5%, due to increased depreciation expense and a delay in completing various capital asset projects during 2018. These assets in 2017 decreased \$3.1 million, or 6.9% from 2016 due to a decrease in work in progress and increased depreciation.

### Deferred Outflows of Resources

Total deferred outflows of resources related to pensions increased \$68 thousand, or 3.8% over 2017 due to projected earnings falling short of actual investment earnings in the state pension program. In 2017, the account decreased \$505 thousand, or 22.0% over 2016 primarily due to the difference between the plans' projected and actual investment earnings.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

Liabilities

During 2018, current liabilities increased \$1.6 million, or 54.3%, driven by recording the cost of eight (8) paratransit vehicles received but not paid for at year end. These vehicles were accepted and paid for in 2019. Current liabilities increased \$58 thousand, or 2.0% over 2016 as a result of increased accrued leave balances for our employees and a lower amount of outstanding invoices at December 31<sup>st</sup>.

Noncurrent liabilities declined by \$2.6 million in both 2018 and 2017, or 23.8% and 19.3%, respectively due to the decrease in long term pension obligations resulting from the adjustments required by GASB 68.

Deferred Inflows of Resources

Deferred inflows of resources related to pensions increased \$1.3 million, or 73.8%, over 2017 and \$1.5 million or 569.6% over 2016 due to the difference between the plans' projected and actual investment earnings.

Net Position

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

During 2018, WTA's net position decreased \$1.6 million, or 2.4%, from 2017 due to a net loss and the increase in accounts payable related to the paratransit buses. Net position in 2017 declined \$2.1 million or 3.0% from 2016 primarily due to the increase in the deferred inflows related to pensions (a non-cash transaction).

Net position is reported in the following two 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 presents WTA's results of operating and non-operating items that result in the changes in net position for the year. In accordance with GASB reporting principles, revenues and expenses are classified as operating or non-operating.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

A summarized comparison of WTA's revenues, expenses, and changes in net position for the years ended December 31, 2018, 2017 and 2016, follows:

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

|  | <u>12/31/2018</u>    | <u>12/31/2017</u>    | <u>12/31/2016</u>    |
|--|----------------------|----------------------|----------------------|
| Operating Revenues                           | \$ 2,786,494         | \$ 2,833,874         | \$ 4,012,588         |
| Operating Expenses                           | 34,240,755           | 32,779,231           | 29,980,526           |
| Operating (Loss)                             | (31,454,261)         | (29,945,357)         | (25,967,938)         |
| Non-operating revenue                        | 29,947,886           | 27,944,446           | 29,849,329           |
| (Loss) / Gain on Disposal of Assets          | (94,600)             | (83,939)             | 16,051               |
| <b>(Decrease) / Increase in Net Position</b> | <b>(1,600,975)</b>   | <b>(2,084,850)</b>   | <b>3,897,442</b>     |
| Net Position - Beginning of Period           | 67,061,683           | 69,146,533           | 65,249,091           |
| <b>Net Position - End of Period</b>          | <b>\$ 65,460,708</b> | <b>\$ 67,061,683</b> | <b>\$ 69,146,533</b> |

### Revenues

WTA's operations are primarily funded with local sales tax revenue, passenger fares, and partnerships with other local agencies. Capital expenditures, primarily for procuring or improving fleet and facilities, are largely reimbursed with federal and state grant funds. Local funds, such as 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, special transit agreements, and vanpool charges. Operating revenues for 2018 declined \$47 thousand, or 1.7%, from 2017. The major contributors to this decrease were flat passenger fares and the end of the contract for service with the Nooksack Tribe.

In 2017, operating revenues decreased \$1.2 million, or 29.4% primarily due to the termination of the agreement with the City of Bellingham Transportation Benefit District, which WTA expected and budgeted for in 2017.

Non-operating revenues consist primarily of sales tax revenue, operating grants, interest income, advertising revenue, and tenant lease income. WTA currently receives six-tenths of one percent of Whatcom County sales and use tax. The agency continued to experience sales tax revenue growth in 2018 increasing \$2.1 million, or 8.1% over the prior year. Sales tax revenue growth in 2017 was \$2.2 million or 9.1% over 2016 due to strong sales during the year, expansion of tax on internet sales, and the addition of the bottled water tax during the fourth (4<sup>th</sup>) quarter.

**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

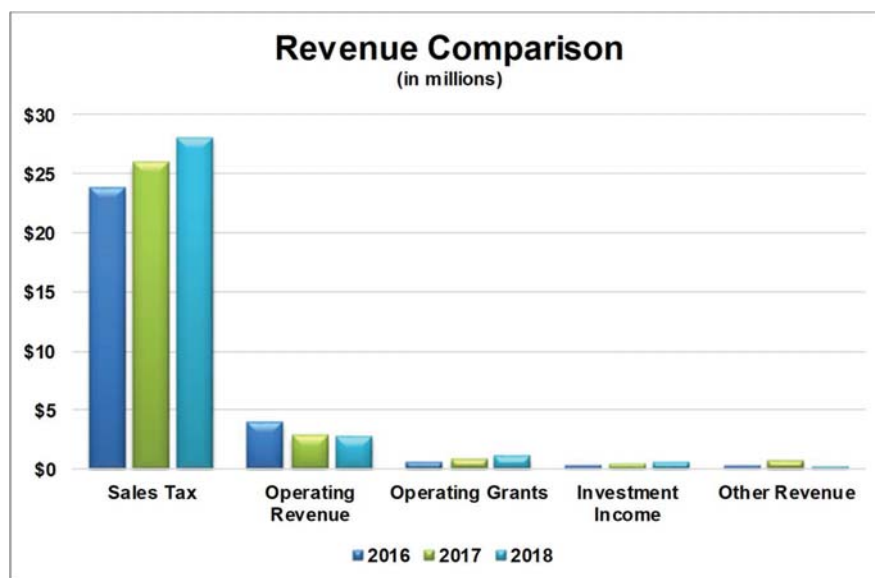
Operating grants for 2018 were \$290 thousand, or 36.5%, greater than 2017 due to new revenue for Route 65 serving rural Whatcom County and an increase in paratransit operating assistance. WTA received operating grant funds totaling \$794 thousand during 2017 from Washington State's Department of Transportation including \$16,754 and \$3,100 from the Federal Emergency Management Fund and the State Military Department, respectively, as reimbursement for damages incurred during the February 2017 weather event.

Additionally, WTA received a Risk Management Grant award for \$2,500 from the Washington State Transit Insurance Pool (WSTIP) in 2018, 2017, and 2016. These funds were allocated to the enhancement of WTA's Emergency Operations and Safety Program.

Investment income was \$148 and \$102 thousand, or 38.1% and 35.5%, greater for 2018 and 2017 respectively, increasing from \$287 thousand in 2016. This revenue source continues to grow with favorable interest rates applied to WTA's healthy cash reserves.

**Revenue Analysis**

| Revenues             | 2018                 | 2017                 | 2016                 | 2018<br>% of Total | 2018 vs.<br>Prev Yr |
|----------------------|----------------------|----------------------|----------------------|--------------------|---------------------|
| Operating            | \$ 2,786,494         | \$ 2,833,874         | \$ 4,012,588         | 8.54%              | \$ (47,380)         |
| Invest. Income       | 536,466              | 388,413              | 286,683              | 1.64%              | 148,053             |
| Sales Tax            | 28,038,850           | 25,946,586           | 23,781,618           | 85.90%             | 2,092,264           |
| Operating Grants     | 1,083,661            | 794,065              | 627,672              | 3.32%              | 289,596             |
| Capital Grants       | (14,338)             | 616,805              | 4,897,739            | -0.04%             | (631,143)           |
| Other Revenue        | 303,247              | 198,577              | 255,617              | 0.93%              | 104,670             |
| Gain/(Loss)          | (94,600)             | (83,939)             | 16,051               | -0.29%             | (10,661)            |
| <b>Total Revenue</b> | <b>\$ 32,639,780</b> | <b>\$ 30,694,381</b> | <b>\$ 33,877,968</b> | <b>100.00%</b>     | <b>\$ 1,945,399</b> |





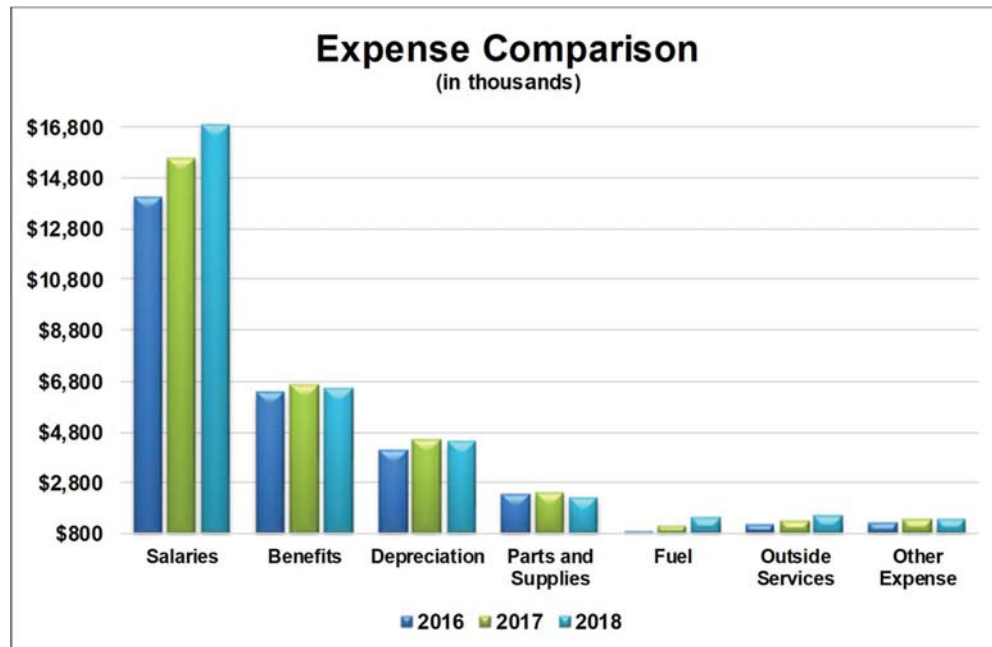
**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

### Expenses

Operating expenses consist of expenses related to transit operations, maintenance, administration, customer service, marketing and depreciation.

During 2018, operating expenses (less depreciation) grew \$1.5 million, or 5.4%, over 2017 as WTA hired new employees to prepare for the June 2019 service expansion along with a 3% cost of living increase for all employees in January coupled with 5% step increases for newer employees.

Operating expenses (less depreciation) for 2017 were \$2.4 million, or 9.2% higher than 2016 expenses primarily due to increased employee wages and benefits to support a 2018 service expansion. Fuel expense in 2017 increased \$270 thousand, or 33.4% over 2016 as a result of higher fuel prices and increased miles traveled.



**WHATCOM TRANSPORTATION AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)  
For the Year Ended December 31, 2018**

**Requests for Information**

This 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  
Finance Director  
Whatcom Transportation Authority  
4011 Bakerview Spur  
Bellingham, WA 98226-8056  
(360) 788-9331

**WHATCOM TRANSPORTATION AUTHORITY**  
**STATEMENT OF NET POSITION**

**December 31, 2018 and 2017**

| <b>ASSETS</b>                             | <u>2018</u>              | <u>2017</u>              |
|---|--------------------------|--------------------------|
| Current Assets:                           |                          |                          |
| Cash and Cash Equivalents                 | \$ 33,285,231            | \$ 32,539,435            |
| Taxes Receivable                          | 4,908,256                | 4,698,092                |
| Grants Receivable                         | 370,866                  | 954,550                  |
| Interest Receivable                       | 57,839                   | 36,142                   |
| Accounts Receivable                       | 39,971                   | 124,295                  |
| Inventories                               | 1,102,891                | 1,016,274                |
| Prepayments                               | 267,979                  | 165,266                  |
| Total Current Assets                      | <u>40,033,033</u>        | <u>39,534,054</u>        |
| Noncurrent assets:                        |                          |                          |
| Capital Assets not Being Depreciated:     |                          |                          |
| Land                                      | 6,130,578                | 6,130,578                |
| Work in Progress                          | 1,850,455                | 590,811                  |
| Capital Assets Being Depreciated:         |                          |                          |
| Buildings                                 | 23,880,804               | 23,880,804               |
| Improvements                              | 4,522,251                | 3,535,905                |
| Transportation Equipment                  | 33,954,334               | 34,932,375               |
| Other Equipment                           | 5,605,603                | 5,367,559                |
| Maintenance/Shop Equipment                | 1,880,641                | 1,892,988                |
| Communications Equipment                  | 2,797,558                | 2,770,904                |
| Less: Accumulated Depreciation            | <u>(41,311,994)</u>      | <u>(37,938,053)</u>      |
| Total Noncurrent Assets                   | 39,310,230               | 41,163,871               |
| <br>TOTAL ASSETS                          | <br><u>\$ 79,343,263</u> | <br><u>\$ 80,697,925</u> |
| <br><b>DEFERRED OUTFLOWS of RESOURCES</b> |                          |                          |
| Deferred Outflows Related to Pensions     | \$ 1,859,708             | \$ 1,791,908             |
| <br>TOTAL DEFERRED OUTFLOWS of RESOURCES  | <br><u>\$ 1,859,708</u>  | <br><u>\$ 1,791,908</u>  |

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

**WHATCOM TRANSPORTATION AUTHORITY**  
**STATEMENT OF NET POSITION**

**December 31, 2018 and 2017**

| <b>LIABILITIES</b>                       | <u>2018</u>              | <u>2017</u>              |
|--|--------------------------|--------------------------|
| Current liabilities:                     |                          |                          |
| Accounts Payable                         | \$ 1,802,665             | \$ 368,230               |
| Accrued Compensated Absences             | 1,660,632                | 1,604,588                |
| Accrued Wages                            | 612,380                  | 539,279                  |
| Other Accrued Liabilities                | 381,106                  | 313,164                  |
| Unearned Revenue                         | 8,333                    | 68,849                   |
| Total Current Liabilities                | <u>4,465,116</u>         | <u>2,894,110</u>         |
| Noncurrent Liabilities:                  |                          |                          |
| Pension Obligations (Net)                | 8,086,002                | 10,650,857               |
| Accrued Long-Term Compensated Absences   | 119,977                  | 114,303                  |
| Other Noncurrent Liabilities             | 5,426                    | 5,426                    |
| Total Noncurrent Liabilities             | <u>8,211,405</u>         | <u>10,770,586</u>        |
| <br>TOTAL LIABILITIES                    | <br><u>\$ 12,676,521</u> | <br><u>\$ 13,664,696</u> |
| <br><b>DEFERRED INFLOWS of RESOURCES</b> |                          |                          |
| Deferred Inflows Related to Pensions     | \$ 3,065,742             | \$ 1,763,454             |
| <br>TOTAL DEFERRED INFLOWS of RESOURCES  | <br><u>\$ 3,065,742</u>  | <br><u>\$ 1,763,454</u>  |
| <br><b>NET POSITION</b>                  |                          |                          |
| Net Investment in Capital Assets         | 39,310,230               | 41,163,871               |
| Unrestricted                             | 26,150,478               | 25,897,812               |
| <b>TOTAL NET POSITION</b>                | <u>\$ 65,460,708</u>     | <u>\$ 67,061,683</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, 2018 and 2017**

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| OPERATING REVENUES:                         |                      |                      |
| Passenger Fares                             | \$ 2,786,494         | \$ 2,797,899         |
| Special Transit Fares                       | -                    | 35,975               |
| Total Operating Revenues                    | <u>2,786,494</u>     | <u>2,833,874</u>     |
| OPERATING EXPENSES:                         |                      |                      |
| Salaries                                    | 16,891,327           | 15,579,719           |
| Benefits                                    | 6,627,072            | 6,759,119            |
| Supplies                                    | 2,990,477            | 2,944,557            |
| Services                                    | 3,336,660            | 3,025,061            |
| Depreciation                                | <u>4,395,219</u>     | <u>4,470,775</u>     |
| Total Operating Expenses                    | <u>34,240,755</u>    | <u>32,779,231</u>    |
| Operating Loss                              | <u>(31,454,261)</u>  | <u>(29,945,357)</u>  |
| NONOPERATING REVENUES:                      |                      |                      |
| Sales Tax                                   | 28,038,850           | 25,946,586           |
| External Subsidies - Grant Revenue          | 1,069,323            | 1,410,870            |
| Investment Income                           | 536,466              | 388,413              |
| Other Nonoperating Revenues                 | <u>303,247</u>       | <u>198,577</u>       |
| Total Nonoperating Revenues                 | <u>29,947,886</u>    | <u>27,944,446</u>    |
| Loss before Contributions, Gains and Losses | <u>(1,506,375)</u>   | <u>(2,000,911)</u>   |
| Loss on asset disposal                      | <u>(94,600)</u>      | <u>(83,939)</u>      |
| Decrease in net position                    | <u>(1,600,975)</u>   | <u>(2,084,850)</u>   |
| Net Position - Beginning of Period          | <u>67,061,683</u>    | <u>69,146,533</u>    |
| Net Position - End of Period                | <u>\$ 65,460,708</u> | <u>\$ 67,061,683</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, 2018 and 2017**

|  | <u>2018</u>            | <u>2017</u>            |
|--|------------------------|------------------------|
| <b>CASH FLOWS from OPERATING ACTIVITIES</b>                                      |                        |                        |
| Receipts from customers  | \$ 2,870,818           | \$ 2,902,974           |
| Payments to employees  | (24,597,690)           | (22,684,440)           |
| Payments to suppliers  | (5,008,959)            | (6,155,396)            |
| Other receipts (payments)  | 169,920                | (1,036,223)            |
| Net cash used by operating activities  | <u>(26,565,911)</u>    | <u>(26,973,085)</u>    |
| <b>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</b>                           |                        |                        |
| Sales Tax receipts   | 28,038,850             | 25,946,586             |
| Operating contributions - grants   | 1,083,661              | 794,065                |
| Other noncapital financing activities  | 303,247                | 198,577                |
| Net cash provided by noncapital financing activities                             | <u>29,425,758</u>      | <u>26,939,228</u>      |
| <b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>                  |                        |                        |
| Capital contributions - grants   | (14,338)               | 616,805                |
| Purchases of capital assets  | (2,541,579)            | (1,419,603)            |
| Other payments   | (94,600)               | (83,939)               |
| Net cash used by capital and related financial activities                        | <u>(2,650,517)</u>     | <u>(886,737)</u>       |
| <b>CASH FLOWS from INVESTING ACTIVITIES</b>                                      |                        |                        |
| Interest and dividends   | 536,466                | 388,413                |
| Net cash provided by investing activities  | <u>536,466</u>         | <u>388,413</u>         |
| Net increase / (decrease) in cash and cash equivalents                           | 745,796                | (532,181)              |
| Balances - beginning of the year   | 32,539,435             | 33,071,616             |
| Balances - end of the year   | <u>\$ 33,285,231</u>   | <u>\$ 32,539,435</u>   |
| <b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b> |                        |                        |
| Operating loss   | \$ (31,454,261)        | \$ (29,945,357)        |
| Adjustments to reconcile operating loss to net cash used:                        |                        |                        |
| Depreciation expense   | 4,395,219              | 4,470,775              |
| Change in assets and liabilities:  |                        |                        |
| Receivables  | 436,147                | (982,887)              |
| Inventories and other current assets   | (189,330)              | (2,850)                |
| Accounts and other payables  | 1,571,006              | 58,040                 |
| Accrued expenses   | (1,324,692)            | (570,806)              |
| Net cash used by operating activities  | <u>\$ (26,565,911)</u> | <u>\$ (26,973,085)</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, 2018**

(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 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 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**

Statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses 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 and special transit fare agreements with other governmental agencies 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.

**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, 2018, Whatcom Transportation Authority was holding \$33,285,231 in short-term residual investments of surplus cash, of which \$33,122,722 was held in the Whatcom County Investment Pool. This amount is classified on the balance sheet as cash and cash equivalents. The 2017 year-end balance was \$32,539,435.

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

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

**2. Receivables**

Taxes receivable at December 31, 2018 consist of \$4,883,899 in state sales tax receivable for the months of November 2018 and December 2018, and \$24,357 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, 2017 were \$4,646,827 and \$51,265 respectively.

Grants receivable at December 31, 2018 consist of \$272,547 due from the Washington State Department of Transportation and \$98,319 due from the Federal Transit Administration. Grants receivable at December 31, 2017 were \$275,989 due from the Washington State Department of Transportation, \$658,712 due from the Federal Transit Administration, \$3,093 due from the Washington State Military Department, and \$16,756 due from the Federal Emergency Management Agency.

Interest receivable at December 31, 2018 totaled \$57,839. 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, 2017 was \$36,142.

Accounts receivable at December 31, 2018 of \$39,971 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, 2017 was \$124,295.

**3. Inventories** are valued by the weighted average method. Inventories were valued at \$1,102,891 at December 31, 2018 and \$1,016,274 at December 31, 2017.

**4. Capital Assets** See Note 2, *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.



**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

Property, plant, and equipment of the Authority is depreciated using the straight-line method over the following estimated useful lives:

| Assets            | Years |
|-------------------|-------|
| Computer Software | 3-7   |
| Equipment         | 5-10  |
| Vehicles          | 4-15  |
| Bus Shelters      | 15    |
| Buildings         | 30    |

5. Deferred Outflows/Inflows of Resources See Note 6, *Pensions*

6. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Employees represented by the Amalgamated Transit Union #843 contract accrue vacation benefits at rates of 112-216 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 can cash out 60% of sick leave balances of 500 hours or greater. Accrued sick leave balances of 300 to 499 hours can be cashed out at 30% of that balance. All vacation pay is payable upon separation. As of December 31, 2018, a liability of \$1,780,609 has been accrued for vacation, sick leave and related benefits liability. The liability at year end 2017 was \$1,718,891.

7. 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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

8. Accrued Wages and Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

9. Unearned Revenues

This account includes amounts recognized as receivables but not revenues because the revenue recognition criteria have not been met. \$8,333 was recognized for 2019 advertising revenue received but not earned. At December 31, 2017, \$60,515 was recognized for 2018 passes delivered to Western Washington University in 2017, and \$8,333 was recognized for 2018 advertising revenue received but not earned.

**WHATCOM TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2018**

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

**NOTE 2 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018 was as follows:

|  | <b>Beginning<br/>Balance<br/>1/1/2018</b> | <b>Increases</b>     | <b>Decreases</b>  | <b>Ending<br/>Balance<br/>12/31/2018</b> |
|--|---|----------------------|-------------------|--|
| Capital assets, not being depreciated:             |   |                      |                   |  |
| Land   | \$ 6,130,578                              | \$ -                 | \$ -              | \$ 6,130,578                             |
| Work in progress                                   | 590,811                                   | 1,710,351            | 450,707           | 1,850,455                                |
| <b>Total capital assets, not being depreciated</b> | <b>6,721,389</b>                          | <b>1,710,351</b>     | <b>450,707</b>    | <b>7,981,033</b>                         |
| Capital assets, being depreciated:                 |   |                      |                   |  |
| Buildings  | 23,880,804                                | -                    | -                 | 23,880,804                               |
| Improvements other than buildings                  | 3,535,905                                 | 986,346              | -                 | 4,522,251                                |
| Transportation equipment                           | 34,932,375                                | -                    | 978,041           | 33,954,334                               |
| Communications equipment                           | 2,770,904                                 | 191,885              | 165,231           | 2,797,558                                |
| Maintenance/shop equipment                         | 1,892,988                                 | 9,020                | 21,367            | 1,880,641                                |
| Other equipment                                    | 5,367,559                                 | 238,045              | -                 | 5,605,604                                |
| <b>Total capital assets being depreciated</b>      | <b>72,380,535</b>                         | <b>1,425,296</b>     | <b>1,164,639</b>  | <b>72,641,192</b>                        |
| Less accumulated depreciation for:                 |   |                      |                   |  |
| Buildings  | 12,196,819                                | 815,751              | -                 | 13,012,570                               |
| Improvements other than buildings                  | 2,212,885                                 | 211,358              | -                 | 2,424,243                                |
| Transportation equipment                           | 16,511,964                                | 2,772,290            | 834,679           | 18,449,575                               |
| Communications equipment                           | 1,452,536                                 | 364,500              | 165,231           | 1,651,805                                |
| Maintenance/shop equipment                         | 1,198,544                                 | 77,809               | 21,367            | 1,254,986                                |
| Other equipment                                    | 4,365,305                                 | 153,511              | -                 | 4,518,816                                |
| <b>Total accumulated depreciation</b>              | <b>37,938,053</b>                         | <b>4,395,219</b>     | <b>1,021,277</b>  | <b>41,311,995</b>                        |
| <b>Total capital assets, net</b>                   | <b>\$41,163,871</b>                       | <b>\$(1,259,572)</b> | <b>\$ 594,069</b> | <b>\$39,310,230</b>                      |

**WHATCOM TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2018**

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

Capital asset activity for the year ended December 31, 2017 was as follows:

|  | <b>Beginning<br/>Balance<br/>1/1/2017</b> | <b>Increases</b>     | <b>Decreases</b>   | <b>Ending<br/>Balance<br/>12/31/2017</b> |
|--|---|----------------------|--------------------|--|
| Capital assets, not being depreciated:             |   |                      |                    |  |
| Land   | \$ 6,130,578                              | \$ -                 | \$ -               | \$ 6,130,578                             |
| Work in progress                                   | 1,456,965                                 | 590,811              | 1,456,965          | 590,811                                  |
| <b>Total capital assets, not being depreciated</b> | <b>7,587,543</b>                          | <b>590,811</b>       | <b>1,456,965</b>   | <b>6,721,389</b>                         |
| Capital assets, being depreciated:                 |   |                      |                    |  |
| Buildings  | 23,880,804                                | -                    | -                  | 23,880,804                               |
| Improvements other than buildings                  | 3,141,036                                 | 394,869              | -                  | 3,535,905                                |
| Transportation equipment                           | 35,285,508                                | 1,788,794            | 2,141,927          | 34,932,375                               |
| Communications equipment                           | 2,525,663                                 | 245,241              | -                  | 2,770,904                                |
| Maintenance/shop equipment                         | 1,892,988                                 | -                    | -                  | 1,892,988                                |
| Other equipment                                    | 5,441,447                                 | -                    | 73,888             | 5,367,559                                |
| <b>Total capital assets being depreciated</b>      | <b>72,167,446</b>                         | <b>2,428,904</b>     | <b>2,215,815</b>   | <b>72,380,535</b>                        |
| Less accumulated depreciation for:                 |   |                      |                    |  |
| Buildings  | 11,377,197                                | 819,622              | -                  | 12,196,819                               |
| Improvements                                       | 2,082,380                                 | 130,505              | -                  | 2,212,885                                |
| Transportation equipment                           | 15,620,814                                | 2,889,930            | 1,998,780          | 16,511,964                               |
| Communications equipment                           | 1,095,431                                 | 357,105              | -                  | 1,452,536                                |
| Maintenance/shop equipment                         | 1,105,753                                 | 92,791               | -                  | 1,198,544                                |
| Other equipment                                    | 4,258,371                                 | 180,822              | 73,888             | 4,365,305                                |
| <b>Total accumulated depreciation</b>              | <b>35,539,946</b>                         | <b>4,470,775</b>     | <b>2,072,668</b>   | <b>37,938,053</b>                        |
| <b>Total capital assets, net</b>                   | <b>\$44,215,043</b>                       | <b>\$(1,451,060)</b> | <b>\$1,600,112</b> | <b>\$41,163,871</b>                      |

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

**NOTE 3 – CHANGES IN LONG-TERM LIABILITIES**

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

|                              | <b>Beginning<br/>Balance<br/>1/1/2018</b> | <b>Additions</b> | <b>Reductions</b>  | <b>Ending<br/>Balance<br/>12/31/2018</b> | <b>Due Within<br/>One Year</b> |
|------------------------------|---|------------------|--------------------|--|--------------------------------|
| Pension obligations          | \$10,650,857                              |                  | \$2,564,855        | \$8,086,002                              | -                              |
| Compensated absences         | 114,303                                   | 5,674            | -                  | 119,977                                  | -                              |
| Other noncurrent liabilities | 5,426                                     | -                | -                  | 5,426                                    | -                              |
| Total Long-Term Liabilities  | <u>\$10,770,586</u>                       | <u>\$5,674</u>   | <u>\$2,564,855</u> | <u>\$8,211,405</u>                       | <u>-</u>                       |

**NOTE 4 - 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.

WTA has twenty (20) unresolved claims against it as of December 31, 2018. 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 reasonably 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.

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

**NOTE 5 – DEPOSITS AND INVESTMENTS**

Cash on hand at December 31, 2018 was \$33,285,231.

The Authority is a participant in the Whatcom County Investment Pool, an external investment pool. The Authority reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The Whatcom County investment policy is established by the Administrative Finance Committee consisting of the Treasurer, Auditor and the Chair of the County Council. The county external investment pool does not have a credit rating and had a weighted average maturity of 300 days (0.90 years) as of December 31, 2018.

**NOTE 6 - PENSION PLANS**

The following table represents the aggregate pension amounts for all plans for the year 2018:

| <b>Aggregate Pension Amounts – All Plans</b> |               |
|--|---------------|
| Pension liabilities                          | \$(8,086,002) |
| Deferred outflows of resources               | \$1,859,708   |
| Deferred inflows of resources                | \$(3,065,741) |
| Pension expense/expenditures                 | \$781,964     |

**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).

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

**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. 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 2018 were as follows:

| <b>PERS Plan 1</b>               |                 |                  |
|----------------------------------|-----------------|------------------|
| <b>Actual Contribution Rates</b> | <b>Employer</b> | <b>Employee*</b> |
| January - August 2018:           |                 |                  |
| PERS Plan 1                      | 7.49%           | 6.00%            |
| PERS Plan 1 UAAL                 | 5.03%           |                  |
| Administrative Fee               | 0.18%           |                  |
| <b>Total</b>                     | <b>12.70%</b>   | <b>6.00%</b>     |
| September - December 2018:       |                 |                  |
| PERS Plan 1                      | 7.52%           | 6.00%            |
| PERS Plan 1 UAAL                 | 5.13%           |                  |
| Administrative Fee               | 0.18%           |                  |
| <b>Total</b>                     | <b>12.83%</b>   | <b>6.00%</b>     |

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

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

**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 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 2018 were as follows:

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

| <b>PERS Plan 2/3</b>             |                     |                    |
|----------------------------------|---------------------|--------------------|
| <b>Actual Contribution Rates</b> | <b>Employer 2/3</b> | <b>Employee 2*</b> |
| January – August 2018:           |                     |                    |
| PERS Plan 2/3                    | 7.49%               | 7.38%              |
| PERS Plan 1 UAAL                 | 5.03%               |                    |
| Administrative Fee               | 0.18%               |                    |
| Employee PERS Plan 3             |                     | varies             |
| <b>Total</b>                     | <b>12.70%</b>       | <b>7.38%</b>       |
| September – December 2018:       |                     |                    |
| PERS Plan 2/3                    | 7.52%               | 7.41%              |
| PERS Plan 1 UAAL                 | 5.13%               |                    |
| Administrative Fee               | 0.18%               |                    |
| Employee PERS Plan 3             |                     | varies             |
| <b>Total</b>                     | <b>12.83%</b>       | <b>7.41%</b>       |

\* For employees participating in JBM, the contribution rate was 18.45% to 18.53%.

The Authority's actual PERS plan contributions were \$856,033 to PERS Plan 1 and \$1,256,296 to PERS Plan 2/3 for the year ended December 31, 2018.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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.



**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 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 7.4 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 7.4 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 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### **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, 2018, 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    | 7%                       | 4.90%  |
| Real Estate        | 18%                      | 5.80%  |
| Global Equity      | 32%                      | 6.30%  |
| Private Equity     | 23%                      | 9.30%  |
|                    | <b>100%</b>              |  |

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

**Sensitivity of the Net Pension Liability/ (Asset)**

The table below presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

|          | <b>1% Decrease<br/>(6.4%)</b> | <b>Current<br/>Discount Rate<br/>(7.4%)</b> | <b>1% Increase<br/>(8.4%)</b> |
|----------|-------------------------------|---|-------------------------------|
| PERS 1   | \$6,686,063                   | \$5,440,523                                 | \$4,361,634                   |
| PERS 2/3 | 12,100,486                    | 2,645,480                                   | (5,106,570)                   |

**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.

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

At June 30, 2018, the Authority reported a total pension liability of \$8,086,002 for its proportionate share of the net pension liabilities as follows:

|          | <b>Liability</b> |
|----------|------------------|
| PERS 1   | \$5,440,523      |
| PERS 2/3 | \$2,645,480      |

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

|          | <b>Proportionate<br/>Share 6/30/17</b> | <b>Proportionate<br/>Share 6/30/18</b> | <b>Change in<br/>Proportion</b> |
|----------|--|--|---------------------------------|
| PERS 1   | 0.116134%                              | 0.121820%                              | 0.005686%                       |
| PERS 2/3 | 0.147940%                              | 0.154941%                              | 0.007001%                       |

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 was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2017, with updated procedures used to roll forward the total pension liability to the measurement date.

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

**Pension Expense**

For the year ended December 31, 2018, the Authority recognized pension expense as follows:

|              | <b>Pension Expense</b> |
|--------------|------------------------|
| PERS 1       | \$758,431              |
| PERS 2/3     | \$23,533               |
| <b>TOTAL</b> | <b>\$781,964</b>       |

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

At December 31, 2018, 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<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|---|---|--|
| Net difference between projected and actual investment earnings on pension plan investments | \$0                                       | \$(216,203)                              |
| Contributions subsequent to the measurement date  | \$436,336                                 | \$0                                      |
| <b>TOTAL</b>  | <b>\$436,336</b>                          | <b>\$(216,203)</b>                       |

| <b>PERS 2/3</b>  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Differences between expected and actual experience   | \$324,266                                 | \$(463,175)                              |
| Net difference between projected and actual investment earnings on pension plan investments          | \$0                                       | \$(1,623,389)                            |
| Changes of assumptions   | \$30,948                                  | \$(752,882)                              |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$431,003                                 | \$(10,093)                               |
| Contributions subsequent to the measurement date   | \$637,155                                 | \$0                                      |
| <b>TOTAL</b>   | <b>\$1,423,372</b>                        | <b>\$(2,849,539)</b>                     |

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

| Total of All Plans   | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| Differences between expected and actual experience   | \$324,266                      | \$(463,175)                   |
| Net difference between projected and actual investment earnings on pension plan investments          | \$0                            | \$(1,839,592)                 |
| Changes of assumptions   | \$30,948                       | \$(752,882)                   |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$431,003                      | \$(10,093)                    |
| Contributions subsequent to the measurement date   | \$1,073,491                    | \$0                           |
| <b>TOTAL</b>   | <b>\$1,859,708</b>             | <b>\$(3,065,742)</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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | PERS 1      |
|-------------------------|-------------|
| 2019                    | \$9,459     |
| 2020                    | \$(47,263)  |
| 2021                    | \$(141,824) |
| 2022                    | \$(36,575)  |
| 2023                    | \$0         |
| Thereafter              | \$0         |

| Year ended December 31: | PERS 2/3    |
|-------------------------|-------------|
| 2018                    | \$(188,553) |
| 2019                    | \$(465,414) |
| 2020                    | \$(916,172) |
| 2021                    | \$(290,469) |
| 2022                    | \$(58,704)  |
| Thereafter              | \$(144,009) |

## NOTE 7 – RISK MANAGEMENT

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

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

WSTIP provides member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Government Entities Mutual, Munich Reinsurance America, Lloyds of London, and Hallmark Specialty Insurance Company for the liability lines; Evanston for auto physical damage; American International Group Inc (AIG)/National Union Fire Insurance for the crime policy; and Beazley Cyber Services for the cyber liability policy. The property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

WTA joined WSTIP in December 1995, for coverage effective January 1, 1996. WTA has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Current coverage includes:

| <b>Risk</b>                                 | <b>Coverage</b>        |                        | <b>Deductible</b> |
|---|------------------------|------------------------|-------------------|
| Bodily Injury & Property Damage             | \$25 million           | Per occurrence         | \$0               |
| Personal Injury & Advertising Injury        | \$25 million           | Per offense            | \$0               |
| Vanpool Driver Medical Expense Protection   | \$35,000               | Per occurrence         | \$0               |
| Underinsured Motorist Coverage              | \$60,000               | Per occurrence         | \$0               |
| Public Officials Liability                  | \$25 million           | Per occurrence         | \$5,000           |
| Property Coverage                           | \$500 million          | Per occurrence         | \$5,000           |
| Auto Physical Damage (< \$250,000 in value) | Fair market value      | Limited to \$1,350,000 | \$5,000           |
| Auto Physical Damage (> \$250,000 in value) | Replacement Cost       | Limited to \$1,250,000 | \$5,000           |
| Employee theft                              | \$1 million            | Per occurrence         | \$10,000          |
| Forgery or alteration                       | \$1 million            | Per occurrence         | \$10,000          |
| Theft, disappearance and destruction        | \$1 million            | Per occurrence         | \$10,000          |
| Robbery and safe burglary                   | \$1 million            | Per occurrence         | \$10,000          |
| Computer fraud                              | \$1 million            | Per occurrence         | \$10,000          |
| Funds Transfer Fraud                        | \$1 million            | Per occurrence         | \$10,000          |
| Money orders and counterfeit money          | \$1 million            | Per occurrence         | \$10,000          |
| Cyber Liability                             | \$50,000 - \$2 million | Limit of Liability     | \$100,000         |

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

**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.

As of December 31, 2018, 257 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. 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.

**WHATCOM TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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

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  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 2018**

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

|  | 2018          | 2017          | 2016          | 2015          | 2014          |
|--|---------------|---------------|---------------|---------------|---------------|
| Employer's proportion of the net pension liability   | 0.121820%     | 0.116134%     | 0.113245%     | 0.114870%     | 0.114069%     |
| Employer's proportionate share of the net pension liability                                    | \$ 5,440,523  | \$ 5,510,649  | \$ 6,081,790  | \$ 6,008,769  | \$ 5,746,279  |
| Covered payroll  | \$ 16,170,727 | \$ 14,633,946 | \$ 13,433,571 | \$ 12,931,070 | \$ 12,365,861 |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | 33.64%        | 37.66%        | 45.27%        | 46.47%        | 46.47%        |
| Plan fiduciary net position as a percentage of the total pension liability                     | 63.22%        | 61.24%        | 57.03%        | 59.10%        | 61.19%        |

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

|  | 2018       | 2017       | 2016       | 2015       | 2014       |
|--|------------|------------|------------|------------|------------|
| Employer's proportion of the net pension liability   | 0.154941%  | 0.147940%  | 0.142251%  | 0.143104%  | 0.141492%  |
| Employer's proportionate share of the net pension liability                                    | 2,645,480  | 5,140,208  | 7,162,225  | 5,113,187  | 2,860,064  |
| Covered payroll  | 16,109,190 | 14,561,826 | 13,317,631 | 12,728,953 | 12,158,934 |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | 16.42%     | 35.30%     | 53.78%     | 40.17%     | 23.52%     |
| Plan fiduciary net position as a percentage of the total pension liability                     | 95.77%     | 90.97%     | 85.82%     | 89.20%     | 93.29%     |



**WHATCOM TRANSPORTATION AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 2018**

**Whatcom Transportation Authority  
Schedule of Employer Contributions  
PERS 1  
For the year ended December 31:**

|  | 2018       | 2017       | 2016       | 2015       | 2014       |
|--|------------|------------|------------|------------|------------|
| Statutorily or contractually required contributions                                  | 856,033    | 759,821    | 672,192    | 577,964    | 523,496    |
| Contributions in relation to the statutorily or contractually required contributions | (856,033)  | (759,821)  | (672,192)  | (577,964)  | (523,496)  |
| Contribution deficiency (excess)   | 0          | 0          | 0          | 0          | 0          |
| Covered payroll  | 16,812,665 | 15,413,674 | 13,976,438 | 13,029,862 | 12,666,334 |
| Contributions as a percentage of covered payroll                                     | 5.09%      | 4.93%      | 4.81%      | 4.44%      | 4.13%      |

**Whatcom Transportation Authority  
Schedule of Employer Contributions  
PERS 2/3  
For the year ended December 31:**

|  | 2018        | 2017        | 2016       | 2015       | 2014       |
|--|-------------|-------------|------------|------------|------------|
| Statutorily or contractually required contributions                                  | 1,256,296   | 1,055,358   | 865,216    | 727,640    | 620,275    |
| Contributions in relation to the statutorily or contractually required contributions | (1,256,296) | (1,055,358) | (865,216)  | (727,640)  | (620,275)  |
| Contribution deficiency (excess)   | 0           | 0           | 0          | 0          | 0          |
| Covered payroll  | 16,750,321  | 15,353,706  | 13,874,771 | 12,917,257 | 12,418,906 |
| Contributions as a percentage of covered payroll                                     | 7.50%       | 6.87%       | 6.24%      | 5.63%      | 4.99%      |

## 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.

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